

**Washington State Auditor's Office**  
**Financial Statements and Federal Single Audit Report**

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**City of Mountlake Terrace**  
**Snohomish County**

Audit Period  
**January 1, 2013 through December 31, 2013**

**Report No. 1012464**

Issue Date  
**September 4, 2014**



**Washington State Auditor**  
**Troy Kelley**

Independence • Respect • Integrity



## Washington State Auditor Troy Kelley

September 4, 2014

Council  
City of Mountlake Terrace  
Mountlake Terrace, Washington

### *Report on Financial Statements and Federal Single Audit*

Please find attached our report on the City of Mountlake Terrace's financial statements and compliance with federal laws and regulations

We are issuing this report in order to provide information on the City's financial condition.

Sincerely,

A handwritten signature in cursive script that reads "Troy X. Kelley".

**TROY KELLEY**  
STATE AUDITOR

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Snohomish County  
January 1, 2013 through December 31, 2013**

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# Federal Summary

## City of Mountlake Terrace Snohomish County January 1, 2013 through December 31, 2013

The results of our audit of the City of Mountlake Terrace are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

### ***FINANCIAL STATEMENTS***

An unmodified opinion was issued on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

#### ***Internal Control Over Financial Reporting:***

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- ***Material Weaknesses:*** We identified deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

### ***FEDERAL AWARDS***

#### ***Internal Control Over Major Programs:***

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

***Identification of Major Programs:***

The following was a major program during the period under audit:

| <u>CFDA No.</u> | <u>Program Title</u>                    |
|-----------------|---|
| 20.205          | Highway Planning and Construction Grant |

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The City did not qualify as a low-risk auditee under OMB Circular A-133.

# Schedule of Audit Findings and Responses

## City of Mountlake Terrace Snohomish County January 1, 2013 through December 31, 2013

### 1. The City's internal controls over accounting and financial statement preparation are inadequate to ensure accurate reporting

#### Background

It is the responsibility of City management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified a material weakness in internal controls that adversely reporting affect the City's ability to produce reliable financial statements.

#### Description of Condition

During our audit, we identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a material weakness:

- City staff responsible for compiling the financial statements did not have sufficient technical knowledge and did not always utilize accounting standards and the *Budget Accounting and Reporting System* (BARS) manual when preparing the financial statements.
- The City believed its utility infrastructure spreadsheet contained errors, however, it chose to continue to use the spreadsheet to account for capital assets without performing a full review of the spreadsheet's data and correcting the identified errors.
- Although the City has procedures to perform a final review of the prepared financial statements prior to audit, the review was not effective in detecting material errors.

#### Cause of Condition

City management has not dedicated the necessary time and resources to:

- Ensure that accounting staff understand and is trained in proper accounting procedures.
- Review its capital assets to ensure depreciation and amorization is being properly calculated and depreciable values for the assets are appropriate.

The City hired an outside consultant to perform a final review of its statements; however, the consultant's review was not sufficient to identify significant errors.

## **Effect of Condition**

Inaccurate financial reports limit access to financial information used by City officials, the public, state and federal agencies and other interested parties. In addition, these conditions delay the audit process and increase audit costs.

As a result of these control deficiencies, our audit identified several material errors in the original financial statements we received for audit. Although errors were identified, the City corrected most significant errors identified and received an unmodified opinion on its financial statements in whole.

### **Material Errors Identified:**

- The City excluded cash and investments held for other governmental entities from the financial statements. Of which, the majority of this amount was attributed to one government and had not been reported in previous years. As a result, the City understated cash and investments by \$3,816,227 in its agency funds. The City corrected this error.
- The City overstated road infrastructure by \$2,472,435 by capitalizing road repair and maintenance projects that it should have expensed. The City corrected this error.
- The City improperly classified a road construction project as construction in-progress even though the asset was put in service in 2010. This resulted in construction in-progress being overstated by \$1,599,901. As a result, the City did not start depreciating the asset and over-reported the project's value by \$319,980.
- The City used an inaccurate methodology to calculate amortization and depreciation expenses for its Sewer, Water, and Storm Water Utility Funds. Specifically, we found the City overstated accumulated depreciation and amortization by \$664,819 for its Sewer Utility Fund. The City corrected this error.
- The City did not classify \$2,284,590 in investments from unspent bond proceeds in the Storm Water Utility Fund as a restricted asset. The City corrected this error.

We identified additional, less significant errors in the financial statements and notes to the financial statements.

## Recommendation

We recommend the City dedicate the necessary time and resources to ensure:

- Staff is provided the necessary training and resources to prepare accurate and complete financial statements.
- Capital assets and the associated accumulated depreciation and depreciation expense are correctly reported.
- The final review of the financial statements is sufficiently detailed to ensure accurate preparation and reporting.

## City's Response

"The City excluded cash and investment held for other governmental entities from the financial statements. Of which, the majority of this amount was attributed to one government and had not been reported in previous years. As a result, the City understated cash and investments by \$3,816,227 in its agency funds. The City corrected this error."

*The \$3,816,227 relates to cash and investments for two agencies that the City provides accounting and budget reporting services. The City has been doing this accounting work for the larger of the two agencies since 2010 and their cash and investments have been a reconciling item and audited as such for the past three years.*

*During the 2013 audit, auditors suggested the two agencies' cash and investment be added to the City's Agency Funds statements.*

*The addition of these funds has no effect on the financial condition of the City. Furthermore, the Agency Funds statements have been updated to include these cash and investments. In the future the City will include these two agencies cash and investment balances in its Agency Funds statements per the rule identified by the State Auditor's Office (SAO) in 2014.*

"The City overstated road infrastructure by \$2,472,435 by capitalizing road repair and maintenance projects that it should have expensed."

*The City has been capitalizing road improvements since 2007 when it implemented GASB Statement 34, which requires capitalization of governmental and business-type activities infrastructure constructed subsequent to 1980. The City has consistently capitalized road improvements per its policy since 2007. The capitalized road projects have been reviewed each of the last five years by the SAO without issue. The \$2,472,435 amount cited by the SAO represents a total of 98 projects that had been completed and capitalized since 2000.*



*The City's reporting of the capitalization of these projects was included in our annual CAFR, which was reviewed by GFOA and for which the GFOA has awarded the Certificate of Achievement for Excellence in Financial Reporting for the past six years.*

*The City's capital asset policy, which was drafted using BARS and GASB guidelines, required that improvements with costs over \$5,000 that improved and extended the useful life of an asset were capitalized. This included chip-seal and overlay road projects.*

*During the 2013 audit, it was brought to our attention that chip-seal and overlay projects should not be capitalized, regardless of the cost of the improvement even if the useful life of the road was extended. Obviously, if these projects did not improve an existing road we would not have initiated and completed these projects.*

*Since this issue was brought to our attention, we purchased the recently GFOA published "Accounting for Capital Assets" written by Stephen J. Gauthier and will follow their various capital asset policy recommendations in the future, including not capitalizing road project unless the capacity of a road is made wider or longer.*

*The City has updated its governmental capital assets schedule in its 2013 CAFR to exclude the \$2,472,435 of projects that are now considered road repairs rather than improvements.*

*Note there was no previous GAAP guidance on the issue, and our state independent auditors signed off on our policy with an unqualified opinion.*

*"The City improperly classified a road construction project as construction in-progress even though the asset put in service in 2010. This resulted in construction in-progress being overstated by \$1,599,901. As a result, the City did not start depreciation the asset and over-reported the project's value by \$319,980."*

*The City was following its capitalization policy to classify all costs as construction work in progress until all final payments and claims are processed. There was a major claim outstanding of \$224,000 that was filed by the contractor on this project in 2011. The unresolved claim delayed the capitalization of the street reconstruction project. This claim was not resolved and settled with the contractor until 2014. The \$106,660 annual depreciation was not taken because according to the City, the outstanding claims had not all been resolved.*

*The City will change in capitalization policy and in the future will capitalize projects when they are substantially complete and put into service even though there may be outstanding claims.*

*"The City used an inaccurate methodology to calculate amortization and depreciation expenses for its Sewer, Water, and Storm Water Utility Funds. Specifically, we found the City overstated accumulated depreciation and amortization by \$664,819 for its Sewer Utility Fund."*

*This issue comes about due to differing views on the useful life of sewer assets, specifically the City's ownership at the Edmonds Wastewater Treatment Plant. The SAO has identified a useful life for depreciation of this asset as ending in 2018, at the time of the current interlocal agreement between Mountlake Terrace and Edmonds. The City, on the other hand, has used a useful life for depreciation based on the estimated useful life of the treatment plant of 18.5 years assuming the agreement will be extended after 2018. (Neither Edmonds nor Mountlake Terrace anticipate the WWTP will be shut off to Mountlake Terrace at the end of 2017; the City owns a portion of the plant, and that ownership does not dissolve if a successor interlocal is not in place.)*

*This explanation aside, the City did increase the net value of its ownership of the Edmonds Wastewater Sewer Plant by \$684,637 per the SAO's recommendation and will change its depreciation method to the straight line method for infrastructure assets. In the City's opinion, the net adjustment of \$684,637 to increase the value of the Sewer Utility capital assets is immaterial as compared to the total Utility Capital assets value of \$36.4 million at December 31, 2013.*

"The City did not classify \$2,284,590 in investments from unspent bond proceeds in the Storm Water Utility fund as a restricted asset. "

*The City has consistently reported all of its restricted unspent bond proceeds from the 2010 and 2012 Revenue bond issues in its Notes to the Financial statements, specifically in Note 3-K (Fund Equity) of the City's 2010, 2011 and 2012 CAFR. The unspent portion of the debt has always been included in the calculation of net position restricted for capital projects. These restricted proceeds will now also be included as restricted Cash and Investments on the City's Statement of Net Position in the 2013 CAFR.*

## **Auditor's Remarks**

We appreciate the City's efforts to resolve the issues identified in this finding. We will review the status of this finding during the next regularly scheduled audit.

## **Applicable Laws and Regulations**

*Government Auditing Standards, December 2011 Revision, paragraph 4.23, states:*

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, as follows:

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

**Material weakness.** A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

**Significant deficiency.** A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

# **Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

**City of Mountlake Terrace  
Snohomish County  
January 1, 2013 through December 31, 2013**

Council  
City of Mountlake Terrace  
Mountlake Terrace, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mountlake Terrace, Snohomish County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 31, 2014.

## ***INTERNAL CONTROL OVER FINANCIAL REPORTING***

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable

possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 1 to be material weaknesses.

## ***COMPLIANCE AND OTHER MATTERS***

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

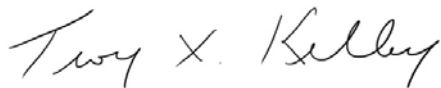
The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## ***CITY'S RESPONSE TO FINDINGS***

The City's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## ***PURPOSE OF THIS REPORT***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



**TROY KELLEY**  
STATE AUDITOR

July 31, 2014

# **Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

**City of Mountlake Terrace  
Snohomish County  
January 1, 2013 through December 31, 2013**

Council  
City of Mountlake Terrace  
Mountlake Terrace, Washington

## ***REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM***

We have audited the compliance of the City of Mountlake Terrace, Snohomish County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The City's major federal programs are identified in the accompanying Federal Summary.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

### ***REPORT ON INTERNAL CONTROL OVER COMPLIANCE***

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

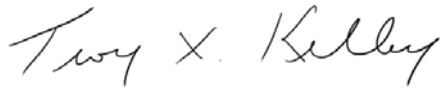
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### ***PURPOSE OF THIS REPORT***

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It

also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in cursive script that reads "Troy X. Kelley".

**TROY KELLEY**  
STATE AUDITOR

July 31, 2014



# **Independent Auditor's Report on Financial Statements**

## **City of Mountlake Terrace Snohomish County January 1, 2013 through December 31, 2013**

Council  
City of Mountlake Terrace  
Mountlake Terrace, Washington

### ***REPORT ON THE FINANCIAL STATEMENTS***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mountlake Terrace, Snohomish County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 17.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mountlake Terrace, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

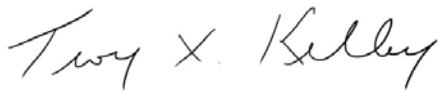
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 18 through 32 and budgetary comparison information on pages 78 through 80 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

## ***OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Troy X. Kelley".

**TROY KELLEY**  
STATE AUDITOR

July 31, 2014

## **Financial Section**

### **City of Mountlake Terrace Snohomish County January 1, 2012 through December 31, 2013**

#### ***REQUIRED SUPPLEMENTARY INFORMATION***

Management's Discussion and Analysis – 2013

#### ***BASIC FINANCIAL STATEMENTS***

Statement of Net Position – 2013

Statement of Activities – 2013

Balance Sheet – Governmental Funds – 2013

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – 2013

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2013

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities – 2013

Statement of Net Position – Proprietary Funds – 2013

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2013

Statement of Cash Flows – Proprietary Funds – 2013

Statement of Fiduciary Net Position – Fiduciary Funds – 2013

Comparative Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2013

Notes to Financial Statements – 2013

#### ***REQUIRED SUPPLEMENTARY INFORMATION***

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund – 2013

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Street Construction Fund – 2013

Notes to the Required Supplementary Information – 2013

#### ***SUPPLEMENTARY AND OTHER INFORMATION***

Schedule of Expenditures of Federal Awards – 2013

Notes to the Schedule of Expenditures of Federal Awards – 2013

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the City of Mountlake Terrace, Washington ("the City") comprehensive annual financial report (CAFR), the City's management is pleased to provide this narrative discussion and analysis of the financial activities of the City for the calendar year ended December 31, 2013. We discuss and analyze the City's financial performance within the context of the accompanying financial statements, schedules, and note disclosures following this section.

### Financial Highlights

- The City's assets exceeded its liabilities by 57,717,921 (net position) for the calendar year reported.
- Total net position are comprised of the following:
  - (1) Net investment in capital assets, of \$48,365,911 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
  - (2) Net position of \$3,079,461 is restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
  - (3) Unrestricted net position of \$6,272,549 represent the portion available to maintain the City's continuing obligations to citizens and creditors.
- The City's governmental funds reported a total ending fund balance of \$6,394,532 this year. This compares to the prior year ending fund balance of \$4,508,757, showing a increase of \$1,885,775 or 41.8% during the current year.
- At the end of the current calendar year, unassigned fund balance for the General Fund was \$912,407, or just 6.3% of total General Fund expenditures.
- Overall, the City continues to maintain a strong financial position, in spite of unfavorable economic conditions and the deepening fiscal crises that local government such as ours will continue to face for the foreseeable future.

The above financial highlights are explained in more detail in the "financial analysis" section of this document.

### Overview of the Financial Statements

This Management Discussion and Analysis (MD&A) document introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. The City also includes in this report additional information to supplement the basic financial statements.

### *Government-wide Financial Statements*

The City's annual financial report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall financial status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in accrual accounting and the elimination or reclassification of activities between funds.

The first of these government-wide statements is the *Statement of Net Position*. This is the government-wide statement of position presenting information that includes all of the City's assets and liabilities, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating.

Evaluation of the overall health of the City would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of City infrastructure, in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities*. This statement reports how the City's net position changed during the current calendar year. All current year revenues and expenses are included regardless of when the City receives or pays cash.

An important purpose of the *Statement of Activities* is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Governmental activities included in this statement are general government, judicial, public safety, physical environment, transportation, economic environment and culture and recreation. Business-type activities include water, sewer and storm water. Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges.

### ***Fund Financial Statements***

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. For example, the Street Fund accounts for dollars associated with street maintenance. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. Individual fund data for nonmajor funds is provided in the form of combining statements in a later section of this report.

The City has three kinds of funds: Governmental, Proprietary and Fiduciary

- *Governmental funds* are reported in the fund financial statements and encompass the same functions reported as governmental activities in the government-wide financial statements such as police, fire and administration. However, the focus is very different with fund statements providing a distinctive view of the City's governmental funds. These statements report short-term calendar accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund operating statement provide a reconciliation to assist in understanding the differences between these two perspectives.

Individual fund information for nonmajor governmental funds is found in combining statements in a later section of this report.

- *Proprietary funds* are reported in the fund financial statements and generally report services for which the City charges customers a fee such as water, sewer and storm water. The City's proprietary funds are classified as enterprise funds and an internal service fund. These enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. The internal service fund is an equipment rental fund.
- *Fiduciary fund* type represents funds held in trust, and includes the firemen's pension trust fund and seven agency funds.

### ***Notes to the Basic Financial Statements***

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

### ***Required Supplementary Information***

This section includes the budgetary schedules for the general fund and the street construction fund.

### ***Supplementary Information***

Combining and comparative individual statements and schedules for some major and nonmajor funds are presented as supplementary information.

### **Financial Analysis of the City as a Whole**

The City's net position at calendar year-end was \$57,717,921. The following table provides a summary of the City's net position:

**Summary of Net Position at December 31, 2013**

|                                  | <b>Governmental Activities</b> |                          | <b>Business-type Activities</b> |                          | <b>Total</b>  |                          |
|----------------------------------|--------------------------------|--------------------------|---------------------------------|--------------------------|---------------|--------------------------|
|                                  | <b>2013</b>                    | <b>Restated<br/>2012</b> | <b>2013</b>                     | <b>Restated<br/>2012</b> | <b>2013</b>   | <b>Restated<br/>2012</b> |
| Assets:                          |                                |                          |                                 |                          |               |                          |
| Current assets                   | \$ 7,703,319                   | \$ 7,262,008             | \$ 5,081,430                    | \$ 10,797,590            | \$ 12,784,749 | \$ 18,059,598            |
| Capital assets                   | 22,444,418                     | 21,821,817               | 37,110,806                      | 34,255,062               | 59,555,224    | 56,076,879               |
| Noncurrent assets                | 694,178                        | 717,652                  | 3,088,115                       | 803,525                  | 3,782,293     | 1,521,177                |
| Total assets                     | 30,841,915                     | 29,801,477               | 45,280,351                      | 45,856,177               | 76,122,266    | 75,657,654               |
| Liabilities:                     |                                |                          |                                 |                          |               |                          |
| Current liabilities              | 902,450                        | 1,766,471                | 650,581                         | 628,212                  | 1,553,031     | 2,394,683                |
| Noncurrent liabilities           | 5,342,963                      | 3,705,848                | 11,508,351                      | 12,091,131               | 16,851,314    | 15,796,979               |
| Total liabilities                | 6,245,413                      | 5,472,319                | 12,158,932                      | 12,719,343               | 18,404,345    | 18,191,662               |
| Net position:                    |                                |                          |                                 |                          |               |                          |
| Net investment in capital assets | 20,932,445                     | 20,005,960               | 27,433,466                      | 25,807,327               | 48,365,911    | 45,813,287               |
| Restricted                       | 1,718,259                      | 1,210,505                | 1,361,202                       | 1,392,296                | 3,079,461     | 2,602,801                |
| Unrestricted                     | 1,945,798                      | 3,112,693                | 4,326,751                       | 5,937,211                | 6,272,549     | 9,049,904                |
| Total net position               | \$ 24,596,502                  | \$ 24,329,158            | \$ 33,121,419                   | \$ 33,136,834            | \$ 57,717,921 | \$ 57,465,992            |

The City continues to maintain a high current ratio. The current ratio compares current assets to current liabilities and is an indication of the ability to pay current obligations. The current ratio for governmental activities is 8.5 to 1 as compared to 4.1 to 1 at December 31, 2012. The current ratio for the business-type activities at December 31, 2013 is 7.8 to 1 as compared to 17.2 to 1 at December 31, 2012. For the City overall, the current ratio is 8.2 to 1 as compared to 8.2 to 1 at December 31, 2012. These ratios are strong.

The City reported positive balances in net position for both governmental and business-type activities. Net position increased \$267,344 for governmental activities and decreased by \$15,415 for business-type activities. The City's overall financial position increased during calendar year 2013 by \$251,929.

Note that 85.1% of the governmental activities' net position is tied up in capital, such as building, infrastructure, vehicles and equipment. The City uses these capital assets to provide services to its citizens. However, with business-type activities, the City has spent 82.8% of its net position. Capital assets in the business-type activities also provide water, sewer and storm water services, but they also generate revenues for this fund. Overall, 83.8% of the City's total net position is included in capital assets.

The following table provides a summary of the City's changes in net position:

|                                     | Summary of Changes in Net Position |               |                          |               |               |               |
|-------------------------------------|------------------------------------|---------------|--------------------------|---------------|---------------|---------------|
|                                     | Governmental Activities            |               | Business-type Activities |               | Total         |               |
|                                     | 2013                               | Restated 2012 | 2013                     | Restated 2012 | 2013          | Restated 2012 |
| Revenues:                           |                                    |               |                          |               |               |               |
| Program:                            |                                    |               |                          |               |               |               |
| Charges for services                | \$ 5,103,876                       | \$ 6,124,435  | \$ 8,186,936             | \$ 7,680,501  | \$ 13,290,812 | \$ 13,804,936 |
| Operating grants                    | 675,733                            | 1,491,289     | 37,697                   | 12,632        | 713,430       | 1,503,921     |
| Capital grants                      | 1,230,122                          | 930,945       | 146,774                  | 644,816       | 1,376,896     | 1,575,761     |
| General:                            |                                    |               |                          |               |               |               |
| Taxes                               | 11,257,479                         | 10,485,957    | -                        | -             | 11,257,479    | 10,485,957    |
| Other                               | 80,594                             | 189,368       | (55,197)                 | 130,260       | 25,397        | 319,628       |
| Total revenues                      | 18,347,804                         | 19,221,994    | 8,316,210                | 8,468,209     | 26,664,014    | 27,690,203    |
| Program Expenses:                   |                                    |               |                          |               |               |               |
| General government                  | 2,291,102                          | 2,682,494     | -                        | -             | 2,291,102     | 2,682,494     |
| Judicial                            | 733,016                            | 677,962       | -                        | -             | 733,016       | 677,962       |
| Public safety                       | 8,406,444                          | 8,640,853     | -                        | -             | 8,406,444     | 8,640,853     |
| Physical environment                | 685,870                            | 991,669       | -                        | -             | 685,870       | 991,669       |
| Transportation                      | 1,837,896                          | 1,643,812     | -                        | -             | 1,837,896     | 1,643,812     |
| Economic environment                | 358,197                            | 736,048       | -                        | -             | 358,197       | 736,048       |
| Culture and recreation              | 3,609,469                          | 4,393,127     | -                        | -             | 3,609,469     | 4,393,127     |
| Interest                            | 158,466                            | 134,135       | -                        | -             | 158,466       | 134,135       |
| Sewer utility                       | -                                  | -             | 3,221,214                | 3,186,047     | 3,221,214     | 3,186,047     |
| Water utility                       | -                                  | -             | 3,346,844                | 3,447,224     | 3,346,844     | 3,447,224     |
| Storm water utility                 | -                                  | -             | 1,763,567                | 1,797,383     | 1,763,567     | 1,797,383     |
| Total expenses                      | 18,080,460                         | 19,900,100    | 8,331,625                | 8,430,654     | 26,412,085    | 28,330,755    |
| Revenues over (under) expenses      | 267,344                            | (678,106)     | (15,415)                 | 37,555        | 251,929       | (640,552)     |
| Transfers in (out)                  | -                                  | 60,000        | -                        | (60,000)      | -             | -             |
| Net changes in net position         | 267,344                            | (618,106)     | (15,415)                 | (22,445)      | 251,929       | (640,552)     |
| Beginning net position, as restated | 24,329,158                         | 28,352,053    | 33,136,834               | 33,159,279    | 60,870,780    | 61,511,332    |
| Ending net position                 | \$ 24,596,502                      | \$ 27,733,947 | \$ 33,121,419            | \$ 33,136,834 | \$ 61,122,709 | \$ 60,870,780 |



## GOVERNMENTAL REVENUES

The total 2013 tax revenues were \$771,522 more than those reported in 2012. Real estate taxes were \$232,445 or 87.5% more than 2012, due to an improving real estate market and the sale of a large commercial building in the City. Sales taxes increased \$227,019 over 2012 or 12.7%. The economy is improving in the City; not only have we seen an increase in retail sales, but there has also been a big increase in sales tax generated by new construction activities in the City. There are several new developments that were built in 2013, including a major Mixed Use building with 123 residences, about 10,000 square feet of commercial space, and other smaller townhome projects.

Utility taxes increased \$85,639 or just 2.9%. Excise taxes increased \$53,316 or 4.9%.

In total, taxes make up 61.4% of the total revenues stream as compared to 54.5% in 2012. Property taxes make up 22% of revenues, as compared to 21.1% in 2012 and the utility taxes make up 16.6% of total revenues as compared to 15.4% in 2012.

The operating grants for general government included the following:

- Liquor Board Taxes from the State of Washington: \$211,086
- City Assistance from the State of Washington: \$116,426
- SNOCOM Fiscal Agent Services: \$17,150

The operating grants for public safety included the following:

- State of Washington Traffic Safety Grant: \$946
- Department of Transportation National Highway Traffic Safety Grant: \$8,134
- Department of Justice Bullet Proof Vests Program: \$3,151
- State of Washington Labor & Industries Stay at Work Program: \$10,000
- HUD Lower Income Housing Assistance for Section 8 Police Protection: \$12,934

The source of the operating grant of \$286,050 for transportation is Motor Vehicle Fuel Tax. The capital grants for transportation included the following:

- State of Washington Motor Vehicle Fuel Tax for Street Improvements: \$129,929
- US Department of Housing & Urban Development Passed Through the CDBG State of Washington Grants for 222<sup>nd</sup> Street Sidewalks: \$64,475
- US Department of Housing & Urban Development Passed Through the CDBG State of Washington Grants for 54<sup>th</sup> Ave Sidewalks: \$146,291
- Federal Highway Admin Department of Transportation Passed Through the WA State Department of Transportation for 54<sup>th</sup> (220<sup>th</sup> to 223<sup>rd</sup>) Sidewalk: \$232,788
- Federal Highway Admin Department of Transportation Passed Through the WA State Department of Transportation for 236<sup>th</sup>/Cedar Way Chip Seal: \$243,700
- Federal Highway Admin Department of Transportation Passed Through the WA State Department of Transportation for Lakeview Trail: \$223,004

- Federal Highway Admin Department of Transportation Passed Through the WA State Department of Transportation for Main Street Design: \$6,556
- State of Washington Department of Commerce Grant for LED Street Lights: \$79,500
- Snohomish County PUD Grant for LED Street Lights: \$67,925
- City of Lynnwood Reimbursement of its Share of 212<sup>th</sup> Street Reconstruction: \$6,716
- Puget Sound Energy's Reimbursement for its Share of 222<sup>nd</sup> Street Sidewalks: \$4,906
- Final Payment on ARRA Grant for 230<sup>th</sup> Street Reconstruction: \$4,391

The City reported an investment loss of \$64,857 as compared to a \$69,809 gain in 2012. These changes are unrealized gains and losses. This unrealized investment loss resulted due to the decrease in fair value of the City's long term investments, when interest rates increased beginning in May, 2013. Note that program revenues cover 38.7% of governmental operating expenses. This means that the taxpayers and the City's other general governmental revenues cover the remaining 61.2% of the governmental expenses. As a result, the general economy and the success of City businesses have a major impact on the City's revenue streams.

## GOVERNMENTAL FUNCTIONAL EXPENSES

Of the City's governmental activities functions, 46.4% of the total costs relates to public safety in 2013 as compared to 43.4% in 2012. Culture and recreation expenses make up 19.9% as compared to 22.1% in 2012.

This table presents the cost of each of the City's programs, including the net costs (i.e., total cost less revenues generated by the activities). The net costs illustrate the financial burden that was placed on the City's taxpayers by each of these functions.

| <b>Governmental Activities</b> |                               |                      |                             |                      |  |
|--------------------------------|-------------------------------|----------------------|-----------------------------|----------------------|--|
|                                | <b>Total Cost of Services</b> |                      | <b>Net Cost of Services</b> |                      |  |
|                                | <b>2013</b>                   | <b>2012</b>          | <b>2013</b>                 | <b>2012</b>          |  |
| General government             | \$ 2,291,102                  | \$ 2,682,494         | \$ 123,643                  | \$ (716,926)         |  |
| Judicial                       | 733,016                       | 677,962              | 332,633                     | 254,755              |  |
| Public safety                  | 8,406,444                     | 8,640,853            | 7,928,754                   | 8,236,080            |  |
| Physical environment           | 685,870                       | 991,669              | 613,575                     | 964,575              |  |
| Transportation                 | 1,837,896                     | 1,643,812            | 346,893                     | (16,132)             |  |
| Economic environment           | 358,197                       | 736,048              | 122,837                     | 269,053              |  |
| Culture and recreation         | 3,609,469                     | 4,393,127            | 1,443,928                   | 2,227,891            |  |
| Interest                       | 158,466                       | 134,135              | 158,466                     | 134,135              |  |
| Total                          | <u>\$ 18,080,460</u>          | <u>\$ 19,900,101</u> | <u>\$ 11,070,729</u>        | <u>\$ 11,353,432</u> |  |

## **BUSINESS-TYPE ACTIVITIES ANALYSIS**

The City maintains three enterprise funds, each of these funds reported the following operating income or (loss) for the last two calendar years:

| Fund                | Operating Income (Loss) |                     | %           |
|---------------------|-------------------------|---------------------|-------------|
|                     | 2013                    | Restated<br>2012    | Change      |
| Sewer Utility       | \$ 295,916              | \$ (90,922)         | -425%       |
| Water Utility       | (43,569)                | (130,839)           | 67%         |
| Storm Water Utility | 78,902                  | (176,627)           | 145%        |
| Total               | <u>\$ 331,249</u>       | <u>\$ (398,388)</u> | <u>443%</u> |

The following analysis is provided for the major enterprise funds.

**Sewer Utility Fund** – Revenues from charges for services increased \$200,259 or 6.1% in 2013 over that of 2012. Regular sewer service rates increased by 2.97% in 2013 and resulted in an increase in revenue of \$131,552. The remaining increase in revenues was due to an increase of development in the City that resulted in increased sewer connection fees of \$68,707 in 2013.

Operation and maintenance costs decreased \$225,472 or 7.6% below the 2012 amount. In 2012, the City spent \$276,300 on a citywide sanitary sewer repair and maintenance project. These repairs and maintenance on the City's sewer mains consisted on repairing existing sewer mains in ten different areas around the City in 2012. This work was completed in 2012; therefore, the costs in 2013 are reduced.

Depreciation expense increased \$38,893 or 26.1% in 2013 due to the completion of Construction Work In Progress Projects related to the Sewer Pump Plant. These projects were completed in 2012, however, depreciation on current year assets does not commence until the following year, therefore, and the increase was recorded in 2013. In 2013, the depreciation on these project additions was \$42,376.

In this year, this fund did not transfer resources to other funds. In 2012, this fund transferred \$20,000 to other funds. At December 31, 2013, net position totals \$9,227,677. Of this amount, \$71,23,748 or 77.2% is tied up in capital assets.

**Water Utility Fund** – Revenues from charges for services increased \$122,724 or 4.1%. Water service rates increased by 3.08% in 2013 and resulted in increased regular water service revenues by \$115,416. The remainder of the increase was due to increased development, which resulted in an increase of water connection fees. In this year, we reported an unrealized loss of \$29,130 as explained above.

Since operating expenses increased just \$35,545 or 1.1%, the 2013 operating loss decreased from a loss of \$130,839 in 2012 to a \$43,569 operating loss. Interest expense increased \$46,613 or 47.8%. In 2012 only two months of interest was incurred on the 2012 revenue bonds; in 2013, twelve months of interest expense was incurred and paid on these bonds.

In this year, this fund did not transfer resources to other funds. In 2012, this fund transferred \$20,000 to other funds.

At December 31, 2013, the net position totaled \$17,208,111. Of this amount, \$14,557,559 or 84.6% is tied up in capital assets.

**Storm Water Utility Fund** - Charges for services increased \$183,452 or 12.7%. Storm water rates increased by 13.77% in 2013 in order to pay for major capital projects, including the Regional Storm Water Detention facility. In this year, we reported an unrealized investment loss of \$35,178 as explained above.

Operations and maintenance expenses decreased \$75,102 or 5.1% from the 2012 amount. In 2012, \$122,638 was spent and expensed on the design of the McAleer Creek Culvert Replacement project, which was not duplicated in 2013.

Interest expense increased \$105,375. In 2012 only two months of interest was incurred on the 2012 revenue bonds; in 2013, twelve months of interest expense was incurred and paid on these bonds.

At December 31, 2013, the net position total was \$6,861,613. Of this amount, \$5,752,159 or 83.8% is tied up in capital assets.

### ***Financial Analysis of the City's Funds***

#### ***Governmental Funds***

As discussed, governmental funds are reported in the fund statements with a focus on short-term inflow and outflow of spendable resources. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of \$6,394,532 as compared to the amount of \$4,508,757 at December 31, 2012.

The restricted amount at December 31, 2013 was \$1,718,259, relating primarily to street maintenance (\$195,486), capital improvements (\$627,680), and \$895,093 for a variety of other restrictions.

Over \$1.7 million is committed, primarily for working capital, contingencies and for revenue fluctuations. The General Fund reports an unassigned amount of fund balance of \$912,407. This amount will be used for future one-time operating costs. The total ending fund balances of governmental funds show an increase of \$1,885,775 as compared to \$4,508,757 at December 31, 2012.

#### ***Major Governmental Funds***

**General Fund** - The General Fund is the City's primary operating fund and the largest source of day-to-day service delivery. The General Fund's fund balance increased by \$504,873 or 23.2% in 2013. In calendar year 2012, the fund balance decreased \$523,625 or 19.4%. The amount of fund balance is determined by the amount of transfers to other funds, and in 2013, this fund transferred out over \$773,000.

Total revenues decreased \$1,003,729 or 6% in 2013. Total taxes increased \$326,910 or 3.3%. Property taxes were down \$40,552 or 1% below the 2012 amount. Sales taxes increased \$227,019 or 12.7%. The economy is improving, as well as the City received more sales tax from new construction from new housing developments in the City. Utility taxes increased \$85,639 or 2.9%.

In total, licenses and permits were up \$242,471 or 28.8% above the 2012 amount. This increase relates to permits and fees from new development. In total, intergovernmental revenue decreased \$59,845 or 10.4% below the 2012 revenue amount.

Charges for services decreased \$1,371,188 or 31.2%. This increase relates to the following:

- New development in the City generated an increase of \$50,776 in engineering fees, and \$125,486 in building permit.
- Business license revenues increased by \$50,540 due to efficiencies and improvements in business license billings and new businesses in the City due to the increased construction activities

Planning fees increased due to the increase in new development in the Town Center and in other areas of the City.

The City no longer reports interfund charges. In 2013, the State of Washington Auditor's office required that all interfund services be reclassified from Interfund Service revenues to a reduction of general government expenditures. The Utilities and Fleet Management Funds' share of general government services totaled \$1,602,323 in 2013; in order to not duplicate the cost of City services, these reimbursements were treated as expenditure reductions in the General Fund. Beginning with the 2015-2016 budget, the City will also change the way it budgets for these services.

Fines and forfeitures were about the same as those in 2012. A \$16,819 unrealized investment loss was reported. Most other revenues were consistent with calendar year 2012.

In 2013, total expenditures decreased \$2,038,932 or 12.3% below the 2012 amount. The general government expenditures decreased \$1,497,541 or 47.5%. Within the general government function, the following reductions from the prior year occurred:

- Legislative/Executive - \$314,710 or 34.6% - As discussed above, the State of Washington Auditor's office required that all interfund services be reclassified from Interfund Service revenues to a reduction of General Government expenditures. The reduction of expenditures recognized within the Legislative/Executive department totaled \$355,356 in 2013; in order to not duplicate the cost of City services, these reimbursements were treated as expenditure reductions in the General Fund, but expenses in the Utility and Fleet Management funds.
- Administrative services - \$724,302 or 47.9% - The reduction is the same as discussed above. The reduction of expenditures recognized within the Administrative Services department totaled \$754,416.
- Property management - \$458,529 or 62.7% - The reduction is the same as discussed above. The reduction of expenditures recognized within the Administrative Services department totaled \$754,416.

Judicial costs increased \$50,096 or 7.3%. The State of Washington recently passed a law that restricts the number of cases that a Public Defender can process in one year to 300 cases per year. As a result, the costs of public defense and other professional services increased by \$49,795 in 2013.

Police expenditures decreased \$356,989 or 6.5% below the 2012 expenditures because:

- Insurance costs incurred for personnel related issues were reallocated from the Police department to the Administrative Services department; this resulted in a reduction of insurance costs of \$121,928 to the Police department in 2013.
- Personnel related costs were \$183,012 less in 2013 than in 2012 due to vacancies that were not filled because of cost savings measures implemented in the department.
- Fleet management costs were also \$24,292 lower than in 2012 due to a decrease of gas prices.

Fire expenditures decreased \$7,956 or 3/10<sup>th</sup> of 1%. The costs for community development are \$107,708 or 9.5% less than the 2012 amount because:

- Personnel costs were \$58,475 lower in 2013 than in 2012, mostly due to the allocation of some labor and benefits to major construction projects design in 2013.
- Professional services were \$56,998 lower in 2013 than in 2012 due to some work that was performed on projects that were reimbursed by Grants in 2012

Finally, the culture and recreation costs were \$112,847 or 3.3% less than the prior year.

**Street Construction Fund** – During 2013, this fund recognized \$1,243,461 in revenues, primarily intergovernmental revenue. Intergovernmental revenue was about \$100 thousand below the 2012 amount.

This fund expended \$1,719,577 for construction projects which included street overlays, sealing and street lights, of this amount \$1,438,488 was capitalized.

This fund reported ending fund balance of \$2,000,306 or a decrease of \$194,418 or 8.9% below the December 31, 2012 amount.

**Capital Improvements Fund** – In 2013, the City issued \$1,660,000, the majority of which was used to retire bond anticipation notes outstanding. This fund expended \$702,309 during 2013. These projects include a master campus plan/CFAT Detail, the Town Center, the PWS building and EOC improvements. The general fund transferred in \$175,000 to this fund to finance capital improvement expenditures. At December 31, 2013, the City reported a fund balance of \$815,404 as compared to a \$490,165 deficit at December 31, 2012.

### **Budgetary Highlights – General Fund**

The General Fund's revenue budget was amended upward in calendar year 2013 by just \$37,500 or 2/10 of 1%. This adjustment was to increase the intergovernmental revenue budget for a grant that was awarded after the original budget was adopted.

In total, tax revenue was \$72,032 above the budget. The sales tax revenue was the only revenue source that was above the final budget, or \$213,858.

License and permits were \$195,276 over the final budget. This overage relates to an improving economy and new housing developments. The charges for services budget variance is explained above.

Recreation fees were below the budget by \$203,319 because the competition of a neighboring City that built a brand new Aquatic Center in 2012. Aquatics revenues were \$250,735 below budget in 2013. Recreation swim and pool instruction revenues as well as Pavilion Room rentals were below budget as the City lost some customers to the new Aquatic facility built by the neighboring City.

In total, the City realized 90% of estimated revenues.

With regard to General Fund expenditure budget, it was amended upward just \$42,454 or just 3/10 of one percent.

The total general government budget was under spent by \$1,676,982 or 50.4 %. The under spending relates primarily to the change in interfund charges as explained above. Other expenditure reductions were made within the General Government function in 2013 for cost savings measures which included not filling a vacant police officer position (savings of \$100,000), and elimination of all non-essential expenditures, like training and supplies. These cost reductions were made in order to be able to fund the City's Interim City Hall rent in 2014, which was not originally in the 2014 Budget.

In total, the public safety budget was under spent by \$185,434 or 2.4%.

The community development budget was under spent by \$132,557 or 11.4%. More than half of this savings (\$69,998) was encumbered at the end of 2013 and carried over to 2014 as unexpended consultant and computer programming contract work that was not completed by the end of 2013. The other savings of \$62,559 were because of actual less fringe benefit expenditures than budgeted. It appears that fringe benefits were overestimated in the budget, as some of the employees in the Community Development department are part time and not eligible for full employee benefits.

Finally, the culture and recreation was under spent by \$339,810 or 9.2%. In 2013, two high-level management positions were vacant and the Recreation department staff reorganized to reduce expenditures. Recreation revenues also declined in 2013, so expenditure reductions needed to be made. Total cost savings on personnel costs in 2013 totaled \$239,808 because this reorganization that took place after the retirement of two management staff. In addition, cost savings measures were implemented in the Parks department as well, with \$21,923 savings in maintenance supplies, \$15,021 savings in public utilities, \$7,684 savings in work equipment rental and \$18,921

savings in work equipment repairs and maintenance. Fewer resale supplies were purchased in the Recreation department resulting in a budget savings of \$13,578 and a savings of \$5,685 in taxes paid on recreation revenues.

## Capital Assets and Long-term Liabilities Administration

### Capital Assets

The City's net investment in capital assets for governmental and business-type activities as of December 31, 2013 was 2.2% for governmental activities and a 5.3% increase for business-type activities. The overall increase was 11% for the City as a whole. See Note 3-D for additional information about changes in capital assets during the calendar year and outstanding at the end of the year.

The following table provides a summary of capital asset activity.

|                                 | Governmental Activities |               | Business Activities |               | Total         |               |
|---------------------------------|-------------------------|---------------|---------------------|---------------|---------------|---------------|
|                                 | 2013                    | 2012          | 2013                | 2012          | 2013          | 2012          |
| Nondepreciable assets:          |                         |               |                     |               |               |               |
| Land                            | \$ 1,538,605            | \$ 1,538,605  | \$ 2,128,469        | \$ 2,128,469  | \$ 3,667,074  | \$ 3,667,074  |
| Construction in progress        | 4,611,374               | 4,873,154     | 6,617,767           | 5,086,237     | 11,229,141    | 9,959,391     |
| Total nondepreciable assets     | 6,149,979               | 6,411,759     | 8,746,236           | 7,214,706     | 14,896,214    | 13,626,465    |
| Depreciable assets:             |                         |               |                     |               |               |               |
| Buildings                       | 13,182,210              | 13,182,210    | 1,745,808           | 1,745,808     | 14,928,018    | 14,928,018    |
| Improvements                    | 1,366,690               | 1,366,690     | 21,168              | 21,168        | 1,387,858     | 1,387,858     |
| Machinery and equipment         | 5,821,651               | 5,544,994     | 621,470             | 590,824       | 6,443,121     | 6,135,818     |
| Infrastructure                  | 22,742,843              | 21,018,828    | 40,143,257          | 38,378,376    | 62,886,100    | 59,397,204    |
| Intangibles                     | -                       | -             | 2,726,106           | 2,325,864     | 2,726,106     | 2,325,864     |
| Total depreciable assets        | 43,113,394              | 41,112,722    | 45,257,809          | 43,062,040    | 88,371,203    | 84,174,762    |
| Less accumulated depreciation   | 26,818,955              | 25,702,164    | 16,893,238          | 16,021,684    | 43,712,193    | 41,723,848    |
| Book value - depreciable assets | 16,294,439              | 15,410,558    | 28,364,571          | 27,040,356    | 44,659,010    | 42,450,914    |
| Percentage depreciated          | 62%                     | 63%           | 37%                 | 37%           | 49%           | 50%           |
| Book value - all assets         | \$ 22,444,418           | \$ 21,822,317 | \$ 37,110,807       | \$ 34,255,062 | \$ 59,555,224 | \$ 56,077,379 |

At December 31, 2013, the depreciable capital assets for governmental activities were 62% depreciated. This compares with the December 31, 2012 percentage of 63%.

At December 31, 2013, the major projects included in the governmental activities construction in progress include:

- Master Campus Plan/CFAT Detail: \$381,710
- Town Center: \$444,893
- PWS Building – EOC Improvements: \$38,886
- 230<sup>th</sup> Street Reconstruction Project: \$1,235,146
- 222<sup>nd</sup> Sidewalk Project (39<sup>th</sup>-44<sup>th</sup>): \$517,589
- Lakeview Trail: \$396,098
- Safe Routes to School (54<sup>th</sup>/220<sup>th</sup>-223<sup>rd</sup>): 383,728
- 54<sup>th</sup> Sidewalk (CBDG/234<sup>th</sup>-236<sup>th</sup>): \$241,471
- 236<sup>th</sup>/Cedar Way Chip Seal: \$312,168

- Street Lights for Town Center/Arbor Village: \$110,639

Governmental activities infrastructure increased approximately \$1.7 million consisting primarily of:

- 212<sup>th</sup> Street Overlay: \$1,293,437
- LED Street Lights: \$286,799

With the City's business-type activities, 37% of the asset values were depreciated at December 31, 2013, as compared to the same 37% at December 31, 2012. Again, a positive indicator.

At December 31, 2013, the major projects included in the business-type activities construction in progress include:

- Ballinger Lakes GC Sewer Repl (Svr/Wtr/Storm - Part of Hall Creek Project @ 230<sup>th</sup>): \$1,290,659
- Decant Station (Sewer/Water/Storm): \$520,372
- 230<sup>th</sup> Water Main: \$235,730
- 228<sup>th</sup> Street Water Main Reconstruction: \$1,284,020
- Automated Meter Reading Project (Replacement of all Water Meters): \$1,157,581
- North Side Water Main Construction: \$71,702
- McAleer Creek Culvert: \$658,321
- Town Center Regional Storm Water Facility: \$217,592
- 222<sup>nd</sup> Water Main/Sidewalks Construction (39<sup>th</sup>-44<sup>th</sup>): \$566,279
- Storm Water Share of Street Construction, 230<sup>th</sup> Reconstruction (56<sup>th</sup>-61<sup>st</sup>): \$317,506

Business-type activities infrastructure increased approximately \$2 million consisting primarily of:

- 55<sup>th</sup> Ave W/230<sup>th</sup> & 234<sup>th</sup> Water Main: \$144,961
- Town Center Water Main Improvement: \$1,120,941
- Storm Water/Sanitary Sewer Reconstruction: \$362,312

### ***Long-term Liabilities***

The following table reports outstanding long-term debt at both December 31, 2013 and 2012.

#### **Outstanding Liabilities**

|                                 | <b>Governmental<br/>Activities</b> |                     | <b>Business-type<br/>Activities</b> |                     | <b>Totals</b>        |                      |
|---------------------------------|------------------------------------|---------------------|-------------------------------------|---------------------|----------------------|----------------------|
|                                 | <b>2013</b>                        | <b>2012</b>         | <b>2013</b>                         | <b>2012</b>         | <b>2013</b>          | <b>2012</b>          |
| General obligation bonds        | \$ 3,060,000                       | \$ 1,580,000        | \$ -                                | \$ -                | \$ 3,060,000         | \$ 1,580,000         |
| Local loan                      | 120,275                            | 235,857             | -                                   | -                   | 120,275              | 235,857              |
| Revenue bonds - net             | -                                  | -                   | 11,087,678                          | 11,548,772          | 11,087,678           | 11,548,772           |
| Public works trust<br>fund loan | 11,698                             | -                   | 874,252                             | 990,353             | 885,950              | 990,353              |
| OPEB                            | 2,079,349                          | 1,580,871           | -                                   | -                   | 2,079,349            | 1,580,871            |
| Compensated absences            | 796,145                            | 843,378             | 119,382                             | 122,635             | 915,527              | 966,013              |
| Total                           | <u>\$ 6,067,467</u>                | <u>\$ 4,240,106</u> | <u>\$ 12,081,312</u>                | <u>\$12,661,760</u> | <u>\$ 18,148,779</u> | <u>\$ 16,901,866</u> |



During calendar year 2013, the City refunded \$1,490,000 of general obligation bonds. This refunding will result in a cash outflow decrease of \$213,928 and an economic gain of \$106,621. All of these bonds will be retired by 2022.

In 2013, the City refinanced two Limited Tax General Obligation (LTGO) Bonds with outstanding balances totaling \$1,580,000 by issuing 2013A Refunding Bonds and an LTGO Bond Anticipation Note totaling \$1,660,000 by issuing 2013B General Obligation Bonds. As part of the refunding, the City reduced its total debt service payments over the next nine years by \$213,928 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$106,621.

See Note 3-G for additional information about changes in capital assets during the calendar year and outstanding at the end of the year.

In a report issued on October 5, 2012, Standard & Poor's (S&P) assigned its 'AA' Rating to the city's 2012 series water and sewer revenue bonds that Council authorized on October 15, 2012. The only ratings higher are "AAA" and "AA+", which few municipalities have achieved. S & P also affirmed its 'AA' long-term rating on the City's previously issued series 2010 water and sewer bonds.

S&P assigned the city an 'AA' rating with a stable outlook, noting that the City has a very strong debt service coverage and strong liquidity. It also notes the city has good financial policies and practices, including formal quarterly financial performance reviews and the maintenance of a six-year forecasting model. Additional key statements from the report:

- Very strong debt service coverage (DSC) at more than 4x in 2012 and forecast at no less than 2x through 2016, and strong liquidity.
- Robust Seattle-area service area with a strong median household effective buying income (EBI).
- Ample water supply and wastewater capacity, with long-term wholesale contracts in place for water and wastewater services.
- Demonstrated willingness and ability to adjust rates frequently to match operating needs.
- In 2007, the city began annually adjusting rates, institutionalizing a practice of tying rates to planned capital spending and forecast operating costs. Rates for the two largest components, water and wastewater, are competitive by regional standards, in our experience; they stand at \$34 and \$42, respectively, for 1,000 cubic feet (7,500 gallons) of monthly residential water consumption. However, unusual in the region in our experience is the City's adoption of prospective rate adjustments for both utilities for the next four years to match the utility's capital planning horizon.
- The utility's financial performance has been very strong, generating strong net revenue during the past four years.
- The stable outlook reflects our view of the utility's robust and institutionalized array of management practices, which provide a framework for the utility to identify and respond to unanticipated financial challenges.

The 'AA' Bond Rating, which is an extraordinary achievement for our City, will translate into lower financing costs by attracting a broader range of investors. This rating is also a positive reflection of the City's effectiveness in managing its financial resources during one of the most difficult economic times in several generations.

On February 7, 2012, Moody's Investors Service affirmed the A1 rating on the City's \$2 million of outstanding Limited Tax General Obligation debt. The Moody's rating affirmation "reflects the City's high overall available fund balances, low debt burden, and continued strong management through the regional economic downturn. Despite a large drop in assessed value (AV), the City benefits from a city council that has shown a willingness to add revenue streams, as well as Washington law that allows for 1% annual increase to property tax levy."

## **Economic Conditions Affecting the City**

2013 was another successful year for the City - a year of maintaining strong finances, delivering a high standard of services to the community, and seeing the realization of the City Council's 2007 vision for a revitalized Town Center.

The City's effectiveness in managing its financial resources while focusing on community needs and City Council goals has come about by adhering to the Six-Year Financial Forecast. This was done by pursuing grant opportunities, continuing to partner with the public and private sectors, continuing communication with State and Federal elected officials to ensure they are aware of local governments' needs, and not spending one-time funds on ongoing commitments.

Today in our City, we are continuing to build a community that is beautiful, accessible, and inviting, and which sustains and improves the quality of life and supports economic development.

***Financial Stability*** - Throughout the recession, the City Council has been diligent about ensuring that Mountlake Terrace maintains its financial health. This has been a focus of the Council because strong, healthy finances help ensure the City is able to provide high quality services both now and into the future.

The Council has maintained the City's finances by adhering to the Six-Year Financial Forecast that ensures we stay within our means. This involves quarterly reviews of the City's finances, including a comparison of current and past revenues and expenditures by fund and department.

Until the economy rebounds, which will take years, our only option is to continue providing general government services with the revenue that is available today, rather than overspending now with the assumption that things will improve.

To expand available revenues, the City continues to proactively pursue and obtain state and federal funding to upgrade our aging infrastructure. This includes streets, parks, sidewalks, facilities, utilities and open space areas. In 2013, for example, the City obtained grants to purchase open space, retrofit street lighting with energy-efficient LED technology, and begin the design of Main Street in the Town Center.

***Service to the Community*** - The result of the City Council's adherence to the Financial Forecast is that the City has been able to maintain - and in some areas increase - the delivery of municipal services provided to the community.

For example, in 2013 we had the highest number of positions filled in years, which has in turn resulted in increased levels of service across city departments. We are experiencing limited employee turnover, primarily because both public and private agencies are shedding employees, not adding them. This in turn reduced the impact on the City's financial resources in terms of recruitment and training.

The community's appreciation for this level of service is seen in the high marks reported in the 2013 Community Satisfaction Survey, which showed that life is good in Mountlake Terrace. Most survey respondents felt positively about the overall quality of life in Mountlake Terrace. They also valued their neighborhoods; the city as a place to live, raise children and retire; and its overall appearance. The vast majority of residents would recommend living in the community and planned on staying.

Residents also identified through the survey that the economy was one of the facets most important to their overall quality of life, conveying a concern for the overall economic health of the community through strong support for funding programs related to economic development and business recruitment.

The survey also showed that residents experience good mobility and that they support transportation improvements, which is a sign that the City Council continues to head in the right direction by investing in roads, sidewalks, trails and bike lanes. A majority of respondents found walking and biking through the community to be good and about half had reduced single-occupancy vehicle trips through carpooling, walking or biking. The vast majority of respondents felt it was essential or very important for the City to address street maintenance and improvement

projects. Furthermore, most residents felt that increased taxes or fees were definitely warranted to fund new or expanded sidewalks programs.

***Economic Development*** - Since 2007, a key goal of the City Council has been a focus on economic development as a financial tool to increase the financial resources available to the community to ensure quality delivery of services.

At the same time, new development generates additional property and sales taxes, which in turn reduces what residents have to pay for public services.

The current level of development activity in Mountlake Terrace, especially in an economic downturn, reflects very positively upon our community. The City Council's actions in 2007 are bearing fruit in terms of numerous development projects completed or underway in the Town Center, adding over 245 housing units and more than 18,000 square feet of commercial space in this redeveloping neighborhood. Throughout the City, the value of new construction almost doubled between 2012 and 2013, from \$15,110,000 in the former to \$29,870,000 in the latter.

With the ongoing focus on financial health, quality service delivery and economic development, Mountlake Terrace is poised to be the future of the Puget Sound area.

### **Contacting the City's Financial Management**

We designed this financial report to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the City's Finance Director, Sonja Springer at (425) 744-6204.

**City of Mountlake Terrace, Washington**  
**Statement of Net Position**  
**December 31, 2013**

|   | <b>Primary Government</b>          |                                     |                      |
|---|------------------------------------|-------------------------------------|----------------------|
|   | <b>Governmental<br/>Activities</b> | <b>Business-type<br/>Activities</b> | <b>Total</b>         |
| <b>Assets</b>   |                                    |                                     |                      |
| <b>Current Assets</b>   |                                    |                                     |                      |
| Cash and cash equivalents (Note 3-A)                              | \$ 643,173                         | \$ 466,499                          | \$ 1,109,672         |
| Investments (Note 3-A)  | 5,070,322                          | 3,620,422                           | 8,690,744            |
| Receivables:  |                                    |                                     |                      |
| Accounts  | 253,088                            | 1,158,106                           | 1,411,194            |
| Taxes   | 1,352,644                          | -                                   | 1,352,644            |
| Intergovernmental   | 186,858                            | 12,585                              | 199,443              |
| Internal  | 176,182                            | (176,182)                           | -                    |
| Inventory   | 21,052                             | -                                   | 21,052               |
| <b>Total Current Assets</b>                                       | <b>7,703,319</b>                   | <b>5,081,430</b>                    | <b>12,784,749</b>    |
| <b>Noncurrent Assets</b>  |                                    |                                     |                      |
| Investment in joint venture                                       | 694,178                            | -                                   | 694,178              |
| Restricted assets   | -                                  | 3,088,115                           | 3,088,115            |
| Capital assets (Note 3-D)   |                                    |                                     |                      |
| Nondepreciable  | 6,149,979                          | 8,746,236                           | 14,896,215           |
| Depreciable, net  | 16,294,439                         | 28,364,570                          | 44,659,009           |
| <b>Total Noncurrent Assets</b>                                    | <b>23,138,596</b>                  | <b>40,198,921</b>                   | <b>63,337,517</b>    |
| <b>Total Assets</b>   | <b>30,841,915</b>                  | <b>45,280,351</b>                   | <b>76,122,266</b>    |
| <b>Liabilities</b>  |                                    |                                     |                      |
| <b>Current Liabilities</b>  |                                    |                                     |                      |
| Accounts payable  | 35,571                             | 7,170                               | 42,741               |
| Intergovernmental payable   | 26,141                             | 70,450                              | 96,591               |
| Deposits payable  | 41,234                             | -                                   | 41,234               |
| Compensated absences payable                                      | 159,229                            | 23,977                              | 183,206              |
| Unearned revenue  | 75,000                             | -                                   | 75,000               |
| Public trust fund loan payable                                    | -                                  | 98,984                              | 98,984               |
| Limited tax general obligation bonds payable                      | 205,000                            | -                                   | 205,000              |
| General obligation refunding bonds payable                        | 240,000                            | -                                   | 240,000              |
| Revenue bonds payable   | -                                  | 450,000                             | 450,000              |
| Local loans payable   | 120,275                            | -                                   | 120,275              |
| <b>Total Current Liabilities</b>                                  | <b>902,450</b>                     | <b>650,581</b>                      | <b>1,553,031</b>     |
| <b>Long-Term Liabilities (net of current portion):</b> (Note 3-G) |                                    |                                     |                      |
| Compensated absences payable                                      | 636,916                            | 95,405                              | 732,321              |
| Other postemployment benefits payable (Note 3-J)                  | 2,079,349                          | -                                   | 2,079,349            |
| Public trust fund loan payable                                    | -                                  | 775,268                             | 775,268              |
| Limited tax general obligation bonds payable                      | 1,475,000                          | -                                   | 1,475,000            |
| General obligation refunding bonds payable                        | 1,140,000                          | -                                   | 1,140,000            |
| Revenue bonds payable   | -                                  | 10,637,678                          | 10,637,678           |
| Public works board loan payable                                   | 11,698                             | -                                   | 11,698               |
| <b>Total Long-term Liabilities</b>                                | <b>5,342,963</b>                   | <b>11,508,351</b>                   | <b>16,851,314</b>    |
| <b>Total Liabilities</b>  | <b>6,245,413</b>                   | <b>12,158,932</b>                   | <b>18,404,345</b>    |
| <b>Net Position</b>   |                                    |                                     |                      |
| Net investment in capital assets (Note 3-K)                       | 20,932,445                         | 27,433,466                          | 48,365,911           |
| Restricted for:   |                                    |                                     |                      |
| Capital projects  | 1,319,847                          | -                                   | 1,319,847            |
| Debt service  | 48,780                             | 1,361,202                           | 1,409,982            |
| Tourism   | 21,900                             | -                                   | 21,900               |
| Housing inspections   | 272,971                            | -                                   | 272,971              |
| Street maintenance  | 54,761                             | -                                   | 54,761               |
| Unrestricted  | 1,945,798                          | 4,326,751                           | 6,272,549            |
| <b>Total Net Position</b>   | <b>\$ 24,596,502</b>               | <b>\$ 33,121,419</b>                | <b>\$ 57,717,921</b> |

See accompanying notes to the basic financial statements

City of Moundlake Terrace, Washington  
Statement of Activities  
For the Year Ended December 31, 2013

| Function/Program                                   | Program Revenues     |                                |  | Net (Expense) Revenue and Changes in Net Assets |                         |                          |
|--|----------------------|--------------------------------|--|---|-------------------------|--------------------------|
|  | Expenses             | Charges for Services and Sales | Operating Grants, Contributions and Interest | Primary Government                              |                         |                          |
|  |                      |                                |  | Capital Grants and Contributions                | Governmental Activities | Business-Type Activities |
| <b>Primary Government</b>                          |                      |                                |  |   |                         |                          |
| General government                                 | \$ 2,291,102         | \$ 1,797,628                   | \$ 344,662                                   | \$ 25,169                                       | \$ (123,643)            | \$ (123,643)             |
| Judicial   | 733,016              | 400,383                        | -  | -   | (332,633)               | (332,633)                |
| Public safety                                      | 8,406,444            | 442,525                        | 35,165                                       | -   | (7,928,754)             | (7,928,754)              |
| Physical environment                               | 685,870              | 72,045                         | 250  | -   | (613,575)               | (613,575)                |
| Transportation                                     | 2,110,070            | -                              | 286,050                                      | 1,204,953                                       | (619,067)               | (619,067)                |
| Economic environment                               | 358,197              | 225,754                        | 9,606  | -   | (122,837)               | (122,837)                |
| Culture and recreation                             | 3,609,469            | 2,165,541                      | -  | -   | (1,443,928)             | (1,443,928)              |
| Interest   | 158,466              | -                              | -  | -   | (158,466)               | (158,466)                |
| <b>Total Governmental Activities</b>               | <b>18,352,634</b>    | <b>5,103,876</b>               | <b>675,733</b>                               | <b>1,230,122</b>                                | <b>(11,342,903)</b>     | <b>(11,342,903)</b>      |
| <b>Business-Type Activities:</b>                   |                      |                                |  |   |                         |                          |
| Sewer Utility                                      | 3,221,214            | 3,470,245                      | -  | 45,281  | -                       | 294,312                  |
| Water Utility                                      | 3,346,844            | 3,092,127                      | -  | 69,854  | -                       | (184,863)                |
| Storm Water Utility                                | 1,763,567            | 1,624,564                      | 37,697                                       | 31,639  | -                       | (69,667)                 |
| <b>Total Business-Type Activities</b>              | <b>8,331,625</b>     | <b>8,186,936</b>               | <b>37,697</b>                                | <b>146,774</b>                                  | <b>-</b>                | <b>39,782</b>            |
| <b>Total - Primary Government</b>                  | <b>\$ 26,684,259</b> | <b>\$ 13,290,812</b>           | <b>\$ 713,430</b>                            | <b>\$ 1,376,896</b>                             | <b>(11,342,903)</b>     | <b>(11,303,121)</b>      |
| <b>General Revenues</b>                            |                      |                                |  |   |                         |                          |
| Property taxes levied for:                         |                      |                                |  |   |                         |                          |
| General government purposes                        |                      |                                |  |   | 4,035,661               | -                        |
| Sales taxes  |                      |                                |  |   | 2,013,858               | -                        |
| Utility taxes                                      |                      |                                |  |   | 3,040,682               | -                        |
| Excise taxes                                       |                      |                                |  |   | 1,138,795               | -                        |
| Real estate excise taxes                           |                      |                                |  |   | 498,108                 | -                        |
| Other taxes  |                      |                                |  |   | 530,375                 | -                        |
| Gain on disposition of capital assets              |                      |                                |  |   | 72,839                  | -                        |
| Investment earnings (loss)                         |                      |                                |  |   | (64,857)                | (86,290)                 |
| Miscellaneous                                      |                      |                                |  |   | 72,612                  | 31,093                   |
| <b>Total General Revenues</b>                      |                      |                                |  |   | <b>11,338,073</b>       | <b>11,282,876</b>        |
| <b>Change in Net Position</b>                      |                      |                                |  |   | <b>(4,830)</b>          | <b>(20,245)</b>          |
| <b>Net Position Beginning of Year, As Restated</b> |                      |                                |  |   | <b>24,329,158</b>       | <b>33,136,834</b>        |
| <b>Net Position End of Year</b>                    |                      |                                |  |   | <b>\$ 24,324,328</b>    | <b>\$ 33,121,419</b>     |
|  |                      |                                |  |   | <b>\$</b>               | <b>\$ 57,445,747</b>     |

See accompanying notes to the basic financial statements

**City of Mountlake Terrace, Washington**  
**Balance Sheet**  
**Governmental Funds**  
**December 31, 2013**

|   | <b>General</b>      | <b>Street<br/>Construction</b> | <b>Capital<br/>Improvements</b> | <b>Other<br/>Governmental<br/>Funds</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|---|---------------------|--------------------------------|---------------------------------|---|---|
| <b>Assets</b>   |                     |                                |                                 |   |   |
| Cash and cash equivalents   | \$ 96,862           | \$ 124,821                     | \$ 56,358                       | \$ 311,955                              | \$ 589,996                              |
| Investments   | 1,205,579           | 1,794,999                      | 810,467                         | 473,965                                 | 4,285,010                               |
| Receivables:  |                     |                                |                                 |   |   |
| Accounts  | 217,025             | -                              | 23,878                          | 12,185                                  | 253,088                                 |
| Taxes   | 1,246,564           | 8,925                          | -                               | 97,155                                  | 1,352,644                               |
| Intergovernmental   | 70,191              | 107,134                        | -                               | -                                       | 177,325                                 |
| Inventory   | 21,052              | -                              | -                               | -                                       | 21,052                                  |
| <b>Total Assets</b>   | <b>\$ 2,857,273</b> | <b>\$ 2,035,879</b>            | <b>\$ 890,703</b>               | <b>\$ 895,260</b>                       | <b>\$ 6,679,115</b>                     |
| <b>Liabilities, Deferred Inflows of<br/>Resources and Fund Balances</b>       |                     |                                |                                 |   |   |
| <b>Liabilities</b>  |                     |                                |                                 |   |   |
| Accounts payable  | \$ -                | \$ 35,571                      | \$ -                            | \$ -                                    | \$ 35,571                               |
| Intergovernmental payable   | 25,080              | 2                              | 289                             | 20                                      | 25,391                                  |
| Deposits payable  | 41,234              | -                              | -                               | -                                       | 41,234                                  |
| Unearned revenue  | -                   | -                              | 75,000                          | -                                       | 75,000                                  |
| <b>Total Liabilities</b>  | <b>66,314</b>       | <b>35,573</b>                  | <b>75,289</b>                   | <b>20</b>                               | <b>177,196</b>                          |
| <b>Deferred Inflows of Resources<br/>- Property Taxes</b>                     | <b>107,240</b>      | <b>-</b>                       | <b>-</b>                        | <b>147</b>                              | <b>107,387</b>                          |
| <b>Total Liabilities and Deferred<br/>Inflows of Resources</b>                | <b>173,554</b>      | <b>35,573</b>                  | <b>75,289</b>                   | <b>167</b>                              | <b>284,583</b>                          |
| <b>Fund Balances</b>  |                     |                                |                                 |   |   |
| Nonspendable  | 21,052              | -                              | -                               | -                                       | 21,052                                  |
| Restricted  | -                   | 195,486                        | 627,680                         | 895,093                                 | 1,718,259                               |
| Committed   | 1,727,438           | -                              | -                               | -                                       | 1,727,438                               |
| Assigned  | 22,822              | 1,804,820                      | 187,734                         | -                                       | 2,015,376                               |
| Unassigned  | 912,407             | -                              | -                               | -                                       | 912,407                                 |
| <b>Total Fund Balances</b>  | <b>2,683,719</b>    | <b>2,000,306</b>               | <b>815,414</b>                  | <b>895,093</b>                          | <b>6,394,532</b>                        |
| <b>Total Liabilities, Deferred Inflows<br/>of Resources and Fund Balances</b> | <b>\$ 2,857,273</b> | <b>\$ 2,035,879</b>            | <b>\$ 890,703</b>               | <b>\$ 895,260</b>                       | <b>\$ 6,679,115</b>                     |

See accompanying notes to the basic financial statements

**City of Mountlake Terrace, Washington**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Position**  
**December 31, 2013**

|  |           |                          |
|--|-----------|--------------------------|
| <b>Total Governmental Fund Balances</b>  | \$        | 6,394,532                |
| <b>Amounts reported for governmental activities in the statement of net position are different because:</b>  |           |                          |
| Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds (exclusive of internal service funds' capital assets).  |           |                          |
| Cost of capital assets   | \$        | 45,045,523               |
| Less accumulated depreciation  |           | <u>(25,029,706)</u>      |
|  |           | 20,015,817               |
| The investment in joint ventures is not reported at the fund financial reporting level but is reported on the government-wide statement of net position.   |           |                          |
|  |           | 694,178                  |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds - property taxes.  |           |                          |
|  |           | 107,387                  |
| The internal service fund is used by management to charge the costs of the equipment rental to individual funds. The assets and liabilities of the internal service funds are included in governmental activities column on the government-wide statement of net position. |           |                          |
|  |           | 3,260,153                |
| The internal service fund chargeback to enterprise funds is not reported in the governmental funds, but is reported on the government-wide financial statements.   |           |                          |
|  |           | 176,182                  |
| Liabilities not due and payable in the current period and therefore are not reported in the governmental fund balance sheets but are reported on the government-wide statement of net position (exclusive of internal service funds' compensated absences).                |           |                          |
| Bonds payable  | \$        | (3,060,000)              |
| Local loans payable  |           | (120,275)                |
| Public works board loan payable  |           | (11,698)                 |
| Other postemployment benefits payable  |           | (2,079,349)              |
| Compensated absences payable   |           |                          |
| (excludes internal service fund)   |           | <u>(780,425)</u>         |
|  |           | (6,051,747)              |
| <b>Net Position Of Governmental Activities</b>   | <b>\$</b> | <b><u>24,596,502</u></b> |
| See accompanying notes to the basic financial statements   |           |                          |

**City of Mountlake Terrace, Washington**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended December 31, 2013**

|  | <b>General</b>      | <b>Street<br/>Construction</b> | <b>Capital<br/>Improvements</b> | <b>Other<br/>Governmental<br/>Funds</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|--|---------------------|--------------------------------|---------------------------------|---|---|
| <b>Revenues</b>  |                     |                                |                                 |   |   |
| Taxes  | \$ 10,377,758       | \$ -                           | \$ -                            | \$ 817,829                              | \$ 11,195,587                           |
| Intergovernmental  | 515,061             | 1,210,181                      | 19,941                          | 286,050                                 | 2,031,233                               |
| Licenses and permits   | 1,085,276           | -                              | -                               | -                                       | 1,085,276                               |
| Charges for services   | 3,024,109           | 62,871                         | 167,601                         | 9,174                                   | 3,263,755                               |
| Fines and forfeitures  | 400,383             | -                              | -                               | -                                       | 400,383                                 |
| Investment earnings  | (16,819)            | (29,591)                       | (14,654)                        | (3,793)                                 | (64,857)                                |
| Rent and leases  | 299,598             | -                              | -                               | -                                       | 299,598                                 |
| Miscellaneous  | 88,337              | -                              | -                               | 1,370                                   | 89,707                                  |
| <b>Total Revenues</b>  | <b>15,773,703</b>   | <b>1,243,461</b>               | <b>172,888</b>                  | <b>1,110,630</b>                        | <b>18,300,682</b>                       |
| <b>Expenditures</b>  |                     |                                |                                 |   |   |
| <b>Current:</b>  |                     |                                |                                 |   |   |
| General government   | 1,571,617           | -                              | 618,540                         | -                                       | 2,190,157                               |
| Judicial   | 735,191             | -                              | -                               | -                                       | 735,191                                 |
| Public safety  | 7,728,533           | -                              | 34,410                          | -                                       | 7,762,943                               |
| Physical environment   | 695,144             | -                              | -                               | -                                       | 695,144                                 |
| Economic environment   | 358,543             | -                              | -                               | 1,188                                   | 359,731                                 |
| Culture and recreation   | 3,356,314           | -                              | 13,845                          | 22,493                                  | 3,392,652                               |
| Transportation   | 49,819              | 281,089                        | -                               | 691,829                                 | 1,022,737                               |
| <b>Capital Outlay</b>  | <b>-</b>            | <b>1,438,488</b>               | <b>35,514</b>                   | <b>-</b>                                | <b>1,474,002</b>                        |
| <b>Debt Service:</b>   |                     |                                |                                 |   |   |
| Principal retirement   | -                   | -                              | -                               | 370,582                                 | 370,582                                 |
| Interest and fiscal charges  | -                   | -                              | -                               | 96,265                                  | 96,265                                  |
| Bond issuance costs  | -                   | -                              | -                               | 29,538                                  | 29,538                                  |
| <b>Total Expenditures</b>  | <b>14,495,161</b>   | <b>1,719,577</b>               | <b>702,309</b>                  | <b>1,211,895</b>                        | <b>18,128,942</b>                       |
| <b>Excess (Deficiency) of Revenues<br/>Over (Under) Expenditures</b> | <b>1,278,542</b>    | <b>(476,116)</b>               | <b>(529,421)</b>                | <b>(101,265)</b>                        | <b>171,740</b>                          |
| <b>Other Financing Sources (Uses)</b>                                |                     |                                |                                 |   |   |
| Issuance of limited tax general obligation bonds                     | -                   | -                              | 1,660,000                       | 20,000                                  | 1,680,000                               |
| Issuance of general obligation refunding bonds                       | -                   | -                              | -                               | 1,490,000                               | 1,490,000                               |
| Payment to bond refunding escrow agent                               | -                   | -                              | -                               | (1,467,663)                             | (1,467,663)                             |
| Inception of intergovernmental loan                                  | -                   | 11,698                         | -                               | -                                       | 11,698                                  |
| Transfers in   | -                   | 270,000                        | 175,000                         | 798,669                                 | 1,243,669                               |
| Transfers out  | (773,669)           | -                              | -                               | (470,000)                               | (1,243,669)                             |
| <b>Total Other Financing Sources (Uses)</b>                          | <b>(773,669)</b>    | <b>281,698</b>                 | <b>1,835,000</b>                | <b>371,006</b>                          | <b>1,714,035</b>                        |
| <b>Net Change in Fund Balances</b>                                   | <b>504,873</b>      | <b>(194,418)</b>               | <b>1,305,579</b>                | <b>269,741</b>                          | <b>1,885,775</b>                        |
| <b>Fund Balances Beginning of Year,</b>                              | <b>2,178,846</b>    | <b>2,194,724</b>               | <b>(490,165)</b>                | <b>625,352</b>                          | <b>4,508,757</b>                        |
| <b>Fund Balances End of Year</b>                                     | <b>\$ 2,683,719</b> | <b>\$ 2,000,306</b>            | <b>\$ 815,414</b>               | <b>\$ 895,093</b>                       | <b>\$ 6,394,532</b>                     |

See accompanying notes to the basic financial statements



**City of Mountlake Terrace, Washington**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes**  
**in Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Year Ended December 31, 2013**

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|  |           |                  |
|--|-----------|------------------|
| <b>Net Changes In Fund Balances - Total Governmental Funds</b> | <b>\$</b> | <b>1,885,775</b> |
|--|-----------|------------------|

---

**Amounts reported for governmental activities in the  
statement of activities are different because:**

Governmental funds report capital outlays as expenditures on the governmental fund type operating statement. However, in the government-wide statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capitalized capital outlay exceeded depreciation expense in the current period.

|                      |                  |         |
|----------------------|------------------|---------|
| Depreciation expense | \$ (1,247,739)   |         |
| Capital outlay       | <u>1,474,002</u> | 226,263 |

|  |         |
|--|---------|
| The book value of capital assets sold are reported on the government-wide statement of activities but not reported in the governmental fund's operating statement. | (4,917) |
|--|---------|

|  |           |
|--|-----------|
| The payment to the bond refunding escrow agent is reported as an other financing use on the governmental fund operating statement but reclassified on the government-wide financial reporting level. | 1,467,663 |
|--|-----------|

|   |             |
|---|-------------|
| The issuance of long-term debt is reported as an other financing source at the fund financial reporting level but reclassified as a liability at the government-wide financial reporting level. | (3,181,698) |
|---|-------------|

|   |          |
|---|----------|
| The loss on bond refunding is written off as interest due to materiality. | (32,663) |
|---|----------|

Revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the funds.

|                     |                  |          |
|---------------------|------------------|----------|
| Property taxes:     |                  |          |
| Deferred @ 12/31/13 | \$ 107,387       |          |
| Deferred @ 12/31/12 | <u>(133,103)</u> | (25,716) |

|  |          |
|--|----------|
| Governmental funds do not report the change in the investment in the joint venture, but the change is reported on the government-wide statement of activity. | (23,474) |
|--|----------|

Elimination of transfers between governmental funds:

|               |                  |   |
|---------------|------------------|---|
| Transfers in  | \$ (1,243,669)   |   |
| Transfers out | <u>1,243,669</u> | - |

|  |          |
|--|----------|
| The internal service fund is used by management to charge the costs of maintenance services to individual funds are not reported in the government-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. | (13,547) |
|--|----------|

|  |        |
|--|--------|
| The internal service fund chargeback to enterprise funds is not reported in the governmental funds, but is reported on the government-wide financial statements. | 46,432 |
|--|--------|

|  |         |
|--|---------|
| Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the government-wide statement of net position. | 370,582 |
|--|---------|

|  |           |
|--|-----------|
| Other postemployment expenses are reported in the government-wide statement of activities, but do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. | (498,478) |
|--|-----------|

Compensated absences are reported in the government-wide statement of activities, but do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

|                      |                |        |
|----------------------|----------------|--------|
| Liability @ 12/31/13 | \$ (780,425)   |        |
| Liability @ 12/31/12 | <u>831,547</u> | 51,122 |

|  |           |                       |
|--|-----------|-----------------------|
| <b>Change In Net Assets of Governmental Activities</b> | <b>\$</b> | <b><u>267,344</u></b> |
|--|-----------|-----------------------|

See accompanying notes to the basic financial statements

City of Mountlake Terrace, Washington  
Statement of Net Position  
Proprietary Funds  
December 31, 2013

|   | Business-type Activities - Enterprise Funds |                      |                     |                      | Governmental Activities - Internal Service Fund |
|---|---|----------------------|---------------------|----------------------|---|
|   | Sewer Utility                               | Water Utility        | Storm Water Utility | Total                |   |
| <b>Assets</b>   |   |                      |                     |                      |   |
| <b>Current Assets:</b>  |   |                      |                     |                      |   |
| Cash and cash equivalents   | \$ 108,089                                  | \$ 150,326           | \$ 208,084          | \$ 466,499           | \$ 53,177                                       |
| Investments   | 1,477,987                                   | 1,862,483            | 279,952             | 3,620,422            | 785,312   |
| Receivables:  |   |                      |                     |                      |   |
| Accounts  | 525,911                                     | 397,800              | 234,395             | 1,158,106            | -   |
| Intergovernmental   | -   | -                    | 12,585              | 12,585               | 9,533   |
| <b>Total Current Assets</b>   | <b>2,111,987</b>                            | <b>2,410,609</b>     | <b>735,016</b>      | <b>5,257,612</b>     | <b>848,022</b>                                  |
| <b>Noncurrent Assets:</b>   |   |                      |                     |                      |   |
| Restricted assets   | 76,404                                      | 299,277              | 2,712,434           | 3,088,115            | -   |
| Capital assets:   |   |                      |                     |                      |   |
| Nondepreciable  | 1,370,586                                   | 4,457,395            | 2,918,255           | 8,746,236            | 200,989   |
| Depreciable, net  | 6,718,106                                   | 15,048,898           | 6,597,566           | 28,364,570           | 2,227,612                                       |
| <b>Total Noncurrent Assets</b>  | <b>8,165,096</b>                            | <b>19,805,570</b>    | <b>12,228,255</b>   | <b>40,198,921</b>    | <b>2,428,601</b>                                |
| <b>Total Assets</b>   | <b>10,277,083</b>                           | <b>22,216,179</b>    | <b>12,963,271</b>   | <b>45,456,533</b>    | <b>3,276,623</b>                                |
| <b>Liabilities</b>  |   |                      |                     |                      |   |
| <b>Current Liabilities:</b>   |   |                      |                     |                      |   |
| Accounts payable  | 441   | 2,207                | 4,522               | 7,170                | -   |
| Intergovernmental payable   | 55,577                                      | 12,343               | 2,530               | 70,450               | 750   |
| Public works trust fund loan payable  | -   | 98,984               | -                   | 98,984               | -   |
| Revenue bonds payable   | 40,833                                      | 166,397              | 242,770             | 450,000              | -   |
| Compensated absences payable  | 5,789                                       | 8,957                | 9,231               | 23,977               | 15,720  |
| <b>Total Current Liabilities</b>  | <b>102,640</b>                              | <b>288,888</b>       | <b>259,053</b>      | <b>650,581</b>       | <b>16,470</b>                                   |
| <b>Long-Term Liabilities: (net of current portion)</b>  |   |                      |                     |                      |   |
| Public works trust fund loan payable  | -   | 775,268              | -                   | 775,268              | -   |
| Revenue bonds payable   | 924,111                                     | 3,908,085            | 5,805,482           | 10,637,678           | -   |
| Compensated absences payable  | 22,655                                      | 35,827               | 36,923              | 95,405               | -   |
| <b>Total Long-term Liabilities</b>  | <b>946,766</b>                              | <b>4,719,180</b>     | <b>5,842,405</b>    | <b>11,508,351</b>    | <b>-</b>  |
| <b>Total Liabilities</b>  | <b>1,049,406</b>                            | <b>5,008,068</b>     | <b>6,101,458</b>    | <b>12,158,932</b>    | <b>16,470</b>                                   |
| <b>Net Position</b>   |   |                      |                     |                      |   |
| Net investment in capital assets  | 7,123,748                                   | 14,557,559           | 5,752,159           | 27,433,466           | 2,428,601                                       |
| Restricted for debt service   | 112,181                                     | 496,332              | 752,689             | 1,361,202            | -   |
| Unrestricted  | 1,991,748                                   | 2,154,220            | 356,965             | 4,502,933            | 831,552   |
| <b>Total Net Position</b>   | <b>\$ 9,227,677</b>                         | <b>\$ 17,208,111</b> | <b>\$ 6,861,813</b> | <b>\$ 33,297,601</b> | <b>\$ 3,260,153</b>                             |
| <b>Reconciliation of the fund level statement of net position to the government-wide statement of net position:</b>           |   |                      |                     |                      |   |
| Record internal service fund charge-back to enterprise funds resulting in an interfund receivable to governmental activities. |   |                      |                     | (176,182)            |   |
| <b>Adjusted Total Net Position</b>  |   |                      |                     | <b>\$ 33,121,419</b> |   |

See accompanying notes to the basic financial statements

City of Mountlake Terrace, Washington  
Statement of Revenues,  
Expenses and Changes in Fund Net Position  
Proprietary Funds  
For the Year Ended December 31, 2013

|   | Business-type Activities - Enterprise Funds |               |                     |               | Governmental Activities - Internal Service Fund |
|---|---|---------------|---------------------|---------------|---|
|   | Sewer Utility                               | Water Utility | Storm Water Utility | Total         |   |
| <b>Operating Revenues</b>   |   |               |                     |               |   |
| Charges for services  | \$ 3,470,245                                | \$ 3,092,127  | \$ 1,624,564        | \$ 8,186,936  | \$ 753,436                                      |
| <b>Operating Expenses</b>   |   |               |                     |               |   |
| Operations and maintenance  | 2,752,512                                   | 2,777,514     | 1,398,448           | 6,928,474     | 557,231   |
| Depreciation  | 421,817                                     | 358,182       | 147,214             | 927,213       | 287,508   |
| <b>Total Operating Expenses</b>   | 3,174,329                                   | 3,135,696     | 1,545,662           | 7,855,687     | 844,739   |
| <b>Operating Income (Loss)</b>  | 295,916                                     | (43,569)      | 78,902              | 331,249       | (91,303)  |
| <b>Non-Operating Revenues (Expenses)</b>  |   |               |                     |               |   |
| Interest and fiscal charges   | (36,054)                                    | (144,068)     | (197,469)           | (377,591)     | -   |
| Gain on disposition of capital assets   | -   | -             | -                   | -             | 77,756  |
| Loss on disposition of capital assets   | -   | (51,915)      | -                   | (51,915)      | -   |
| Intergovernmental   | -   | -             | 37,697              | 37,697        | -   |
| Investment earnings   | (21,982)                                    | (29,130)      | (35,178)            | (86,290)      | -   |
| Miscellaneous revenue   | 2,146                                       | 11,081        | 17,866              | 31,093        | -   |
| <b>Total Non-Operating Revenues (Expenses)</b>  | (55,890)                                    | (214,032)     | (177,084)           | (447,006)     | 77,756  |
| <b>Income (Loss) Before Contributions</b>   | 240,026                                     | (257,601)     | (98,182)            | (115,757)     | (13,547)  |
| <b>Contributions</b>  | 45,281                                      | 69,854        | 31,639              | 146,774       | -   |
| <b>Change in Net Position</b>   | 285,307                                     | (187,747)     | (66,543)            | 31,017        | (13,547)  |
| <b>Net Position Beginning of Year, as Restated</b>  | 8,942,370                                   | 17,395,858    | 6,928,356           | 33,266,584    | 3,273,700                                       |
| <b>Net Position End of Year</b>   | \$ 9,227,677                                | \$ 17,208,111 | \$ 6,861,813        | \$ 33,297,601 | \$ 3,260,153                                    |
| <b>Reconciliation of the fund level operating statement to the government-wide statement of activities:</b> |   |               |                     |               |   |
| Change in net position  | \$ 285,307                                  | \$ (187,747)  | \$ (66,543)         | \$ 31,017     |   |
| Internal service fund charges (credits) to enterprise funds, resulting in changes to operating expenses.    | (10,831)                                    | (15,165)      | (20,436)            | (46,432)      |   |
| <b>Adjusted Change in Net Position</b>  | \$ 274,476                                  | \$ (202,912)  | \$ (86,979)         | \$ (15,415)   |   |

See accompanying notes to the basic financial statements

City of Mountlake Terrace, Washington  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2013

|  | Business-type Activities - Enterprise Funds |               |                     |              | Governmental Activities - Internal Service Fund |
|--|---|---------------|---------------------|--------------|---|
|  | Sewer Utility                               | Water Utility | Storm Water Utility | Total        |   |
| <b>Increase (Decrease) in Cash and Cash Equivalents</b>                        |   |               |                     |              |   |
| <b>Cash Flows from Operating Activities</b>                                    |   |               |                     |              |   |
| Cash received from customers   | \$ 3,456,509                                | \$ 3,080,881  | \$ 1,669,206        | \$ 8,206,596 | \$ 33,571                                       |
| Cash received from interfund services provided                                 | -   | -             | -                   | -            | 713,894   |
| Cash payments to employees for services  | (395,065)                                   | (539,631)     | (572,723)           | (1,507,419)  | (152,259)                                       |
| Cash payments for goods and services   | (2,344,322)                                 | (2,235,789)   | (824,159)           | (5,404,270)  | (402,234)                                       |
| <b>Net Cash Provided by (Used in) Operating Activities</b>                     | 717,122                                     | 305,461       | 272,324             | 1,294,907    | 192,972   |
| <b>Cash Flows from Capital and Related Financing Activities</b>                |   |               |                     |              |   |
| Capital grant proceeds   | -   | -             | 37,697              | 37,697       | -   |
| Proceeds from disposition of capital assets                                    | -   | 27,571        | -                   | 27,571       | 98,238  |
| Proceeds from revenue bonds  | -   | -             | -                   | -            | -   |
| Principal paid on revenue bonds  | (40,000)                                    | (159,608)     | (230,392)           | (430,000)    | -   |
| Interest paid on revenue bonds   | (36,054)                                    | (139,202)     | (197,469)           | (372,725)    | -   |
| Principal paid on public works trust fund loan                                 | -   | (116,101)     | -                   | (116,101)    | -   |
| Interest paid on public trust fund loan  | -   | (4,866)       | -                   | (4,866)      | -   |
| Payments for capital acquisitions  | (498,387)                                   | (1,742,768)   | (1,474,514)         | (3,715,669)  | (709,245)                                       |
| <b>Net Cash Provided by (Used in) Capital and Related Financing Activities</b> | (574,441)                                   | (2,134,974)   | (1,864,678)         | (4,574,093)  | (611,007)                                       |
| <b>Cash Flows from Investing Activities</b>                                    |   |               |                     |              |   |
| Purchase of investment securities  | (792,156)                                   | (1,101,697)   | (1,524,980)         | (3,418,833)  | -   |
| Proceeds from sale and maturities of investment securities                     | 364,662                                     | 2,093,281     | 2,062,024           | 4,519,967    | (389,716)                                       |
| Investment earnings  | 22,880                                      | 37,322        | 54,667              | 114,869      | 558,781   |
| <b>Net Cash Provided by (Used in) Investing Activities</b>                     | (404,614)                                   | 1,028,906     | 591,711             | 1,216,003    | 169,065   |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>                    | (261,933)                                   | (800,607)     | (1,000,643)         | (2,063,183)  | (248,970)                                       |
| <b>Cash and Cash Equivalents Beginning of Year</b>                             | 370,022                                     | 950,933       | 1,208,727           | 2,529,682    | 302,147   |
| <b>Cash and Cash Equivalents End of Year</b>                                   | \$ 108,089                                  | \$ 150,326    | \$ 208,084          | \$ 466,499   | \$ 53,177                                       |

(Continued)

City of Mountlake Terrace, Washington  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2013

(Continued)

|  | Business-type Activities - Enterprise Funds |                   |                     |                     | Governmental Activities - Internal Service Fund |
|--|---|-------------------|---------------------|---------------------|---|
|  | Sewer Utility                               | Water Utility     | Storm Water Utility | Total               |   |
| <b>Reconciliation of Operating (Loss) to Net Cash Provided by (Used in) Operating Activities</b> |   |                   |                     |                     |   |
| Operating Income (Loss)  | \$ 295,916                                  | \$ (43,569)       | \$ 78,902           | \$ 331,249          | \$ (91,303)                                     |
| <b>Adjustments:</b>  |   |                   |                     |                     |   |
| Depreciation   | 421,817                                     | 358,182           | 147,214             | 927,213             | 287,508   |
| <b>(Increase) Decrease in Assets:</b>  |   |                   |                     |                     |   |
| Accounts receivable  | (13,736)                                    | (11,246)          | 8,474               | (16,508)            | -   |
| Intergovernmental receivable   | -   | -                 | 36,169              | 36,169              | (5,971)   |
| <b>Increase (Decrease) in Liabilities:</b>   |   |                   |                     |                     |   |
| Accounts payable   | 441   | 2,208             | 4,521               | 7,170               | -   |
| Intergovernmental payable  | 12,355                                      | 350               | 162                 | 12,867              | (1,151)   |
| Compensated absences payable   | 329   | (464)             | (3,118)             | (3,253)             | 3,889   |
| <b>Net Cash Provided by (Used in) Operating Activities</b>                                       | <u>\$ 717,122</u>                           | <u>\$ 305,461</u> | <u>\$ 272,324</u>   | <u>\$ 1,294,907</u> | <u>\$ 192,972</u>                               |
| <b>Schedule of Non-Cash Capital and Related Financing Activities</b>                             |   |                   |                     |                     |   |
| Capital assets contributed by private developers   | \$ 45,281                                   | \$ 69,854         | \$ 31,639           | \$ 146,774          | \$ -  |
| Increase (decrease) in fair value of investments   | <u>(44,862)</u>                             | <u>(66,453)</u>   | <u>(89,845)</u>     | <u>(201,160)</u>    | <u>-</u>  |
| <b>Total Non-Cash Activities</b>   | <u>\$ 419</u>                               | <u>\$ 3,401</u>   | <u>\$ (58,206)</u>  | <u>\$ (54,386)</u>  | <u>\$ -</u>                                     |

See accompanying notes to the basic financial statements

**City of Mountlake Terrace, Washington**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**December 31, 2013**

|                                    | <b>Pension<br/>Trust</b> | <b>Agency</b>       |
|------------------------------------|--------------------------|---------------------|
| <b>Assets</b>                      |                          |                     |
| Cash and cash equivalents          | \$ 1,033                 | \$ 1,232,138        |
| Investments                        | -                        | 2,927,603           |
| <b>Total Assets</b>                | <u>1,033</u>             | <u>\$ 4,159,741</u> |
| <b>Liabilities</b>                 |                          |                     |
| Deposits payable                   | -                        | 338,454             |
| Intergovernmental payable          | -                        | 3,821,287           |
| <b>Total Liabilities</b>           | <u>-</u>                 | <u>\$ 4,159,741</u> |
| <b>Net Position</b>                |                          |                     |
| Held in trust for pension benefits | <u>\$ 1,033</u>          |                     |

See accompanying notes to the basic financial statements

**City of Mountlake Terrace, Washington**  
***Comparative Statement of Changes in Fiduciary Net Position***  
***Fiduciary Funds***  
***Firemen's Pension Trust Fund***  
***For the Years Ended December 31, 2013 and 2012***

|                                       | <u>2013</u>     | <u>2012</u>     |
|---------------------------------------|-----------------|-----------------|
| <b>Net Position Beginning of Year</b> | \$ 1,033        | \$ 1,033        |
| <b>Net Position End of Year</b>       | <u>\$ 1,033</u> | <u>\$ 1,033</u> |

See accompanying notes to the basic financial statements

The City of Mountlake Terrace, Washington (the City) was incorporated November 29, 1954, under the provision of Chapter 35A RCW as amended. The City operates under a Council - Manager form of government and provides the following services: public safety (police and fire protection), public works (streets, sanitation, and utilities), culture, recreation, and library services, planning and zoning, and general administrative services.

### ***Note 1 - Summary of Significant Accounting Policies***

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting.

The City does not follow private sector guidance issued after November 30, 1989.

The most significant of the City's accounting policies are described below.

#### ***1-A. Reporting Entity***

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City, this entity includes one component units as described below.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organizations; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or the City is obligated for the debt of the organization. Component units also may include organizations that are fiscally dependent on the City in that the City approves the budget, levies their taxes or issues their debt.

The City's component unit is presented as "blended." It is reported as if it were a fund of the City throughout the year. It is included at both the government-wide and fund financial reporting levels.

A brief description of the blended component unit follows:

***Mountlake Terrace Transportation Benefit District (TBD)*** - The TBD was established by the City Council by adopting Ordinance No. 2584, as authorized by RCW 35.21.255 and subject to the provision of Chapter 36.73 RCW on December 5, 2011. The City Council serves as the board of directors of the TBD, and they elect a Chairperson and Vice Chairperson of the TBD Board of Directors. The City's City Manager serves as the TBD's Executive Director, the City's Finance Director serves as the TBD's Treasurer, and the City's City Clerk serves as the TBD's Secretary.

The TBD Board of Director's authorized levying a \$20 vehicle license fee for City residents effective July 3, 2012, on January 3, 2012. The proceeds of the \$20 vehicle license fee will be applied to the City's transportation improvements that preserve, maintain, operate, construct or reconstruct the existing transportation infrastructure of the City.

Although the TBD is legally separated from the City, the TBD is reported as if it were part of the primary government because its sole purpose is to finance the City's transportation improvements.

#### ***1-B. Basis of Presentation***

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities and fund financial statements, which provide a more detailed level of financial information.

***Government-wide Financial Statements*** - The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole. Fiduciary activities are not included at the government-wide financial reporting level. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and grants and City's general revenues, from business-type activities, generally financed in whole or in part with user fees charged to external customers.



## ***Note 1 - Summary of Significant Accounting Policies (Continued)***

The statement of net position presents the financial position of the governmental and business-type activities of the City.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities and for each identifiable activity of the business-type activities of the City. Direct expenses are those that are specifically associated with a function and therefore clearly identifiable to that particular function. The City does not allocate indirect expenses to functions in the statement of activities.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. For identifying to which function program revenue pertains, the determining factor for *charges for services* is which function *generates* the revenue. For *grants and contributions*, the determining factor is to which function the revenues are *restricted*.

Other revenue sources not properly included with program revenues are reported as general revenues of the City. The comparison of direct expenses with program revenues identifies the extent to which each governmental function and each identifiable business activity is self-financing or draws from the general revenues of the City.

***Fund Financial Statements*** - During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. Fund financial statements are provided for governmental, proprietary and fiduciary funds.

Major individual governmental and enterprise funds are reported in separate columns.

***Fund Accounting*** - The City uses funds to maintain its financial records during the year. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The City uses three categories of funds: governmental, proprietary and fiduciary.

***Governmental Funds*** - Government funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The City reports the difference between governmental fund assets and liabilities as fund balance. The following are the City's major governmental funds:

***The General Fund*** – The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund's fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of the State of Washington.

***Street Construction Fund*** – This fund is a major special revenue fund that accounts for financial resources to be used for projects that provide, preserve and improve street, pedestrian and traffic control facilities. Revenues reported in this fund include state and local grants, a share of the State's motor vehicle fuel taxes, reimbursements from other cities for street construction on joint projects, and traffic impact fees.

***Capital Improvements Fund*** – This is a capital projects fund that accounts for the financial resources and expenditures for all governmental capital improvement expenditures and projects.

***Proprietary Funds*** - Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. The proprietary funds are classified as enterprise funds and an internal service fund. The following are the City's major enterprise funds:

***Sewer Utility Fund*** – This fund accounts for the activities of providing sewer services to its citizens.

**Water Utility Fund** – This fund accounts for the activities of providing water services to its citizens.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Storm Water Utility Fund** – This fund accounts for the activities of providing storm water services to its citizens.

**Internal Service Fund – Fleet Management Fund** - This fund accounts for fleet maintenance services provided to other departments of the city on a cost reimbursement basis.

**Fiduciary Funds** – The City’s fiduciary funds include a pension trust fund for excess pension payments to qualified fire fighters and six agency funds, the private suspense fund, public suspense fund, investment clearing fund, SNOCOM fund, the Alliance for Housing Affordability fund and the benefit clearing account. Pension trust fund reporting focuses on net position.

**1-C. Measurement Focus**

**Government-wide Financial Statements** - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net position. The statement of activities reports revenues and expenses. The government-wide financial statements do not include the fiduciary fund types.

**Fund Financial Statements** - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the governmental fund statements.

Like the government-wide statements, all proprietary fund types and the pension trust fund are accounted for on a flow of economic resources measurement focus on both financial reporting levels. All assets and all liabilities associated with the operation of these funds are included on the statements of net position. The statements of changes in fund net position present increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

**1-D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. At the fund reporting level, the governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting at both reporting levels. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows and outflows, and in the presentation of expenses versus expenditures.

**Revenues – Exchange Transactions** - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded when the exchange takes place and in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, the phrase “available for exchange transactions” means expected to be received within 60 days of year-end.

**Revenues - Non-exchange Transactions** - Non-exchange transactions in which the City receives value without directly giving equal value in return, include sales taxes, property taxes, grants and donations. On an accrual basis, revenue from sales taxes is recognized in the period in which the taxable sale takes place. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (Note 3-C) Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which

the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions also must be available (i.e., collected within 60 days) before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be susceptible to accrual: property taxes, and federal and state grants.

**Expenses/Expenditures** - On the accrual basis of accounting, expenses are recognized at the time they are incurred. On the modified accrual basis, expenditures generally are recognized in the accounting period in which the related fund liability is incurred and due, if measurable.

### ***1-E. Assets, Liabilities and Net Position/Fund Balances***

#### ***1-E-1 Cash, Cash Equivalents, and Investments***

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City.

Investments are stated at fair value based on quoted market prices.

The City is empowered to invest in the following types of securities identified as eligible investments as defined by RCW 35A.40.050 and RCW 43.84.080. In general, these consist of:

- Investment deposits (certificates of deposits) with qualified public depositories as defined in Chapter 39.58 RCW.
- Certificates, notes or bonds of the United States, or other obligations of the United States or its agencies, or of any corporation wholly owned by the government of the United States whose securities carry full faith and credit guarantees.
- Obligations of government sponsored corporations, which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System. (These include but are not limited to, Federal Home Loan Bank notes and bonds, Federal Farm Credit Bank consolidated notes and bonds, and Federal National Mortgage Associates notes.)
- Prime bankers acceptances purchased on the secondary market.
- Repurchase agreements for securities listed above, provided that the transaction is structured so that the City obtains ownership and control over the underlying securities. A Master repurchase agreement between the City and the bank or dealer must be on file prior to any repurchase agreement transaction.
- The Washington Local Government Investment Pool

Interest earnings are allocated to each fund monthly, based on average pooled equity balances.

#### ***1-E-2 Receivables***

All trade and tax receivables are reported net of an allowance for uncollectibles, where applicable. Taxes receivable consists of property taxes, sales tax, utility taxes, gambling taxes, liquor excise tax and state shared program revenues. Accounts receivable includes billed customer accounts including outstanding sewer, water and storm water bills.

#### ***1-E-3 Interfund Balances***

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/interfund payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for any net residual amounts due between governmental and business-type activities, which are reclassified and presented as internal balances.

#### ***1-E-4 Inventories***

On the government-wide financial statements and at the fund financial reporting level, inventories are presented at cost using the weighted average cost method and are expensed when used (i.e., the consumption method).

### 1-E-5 Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in governmental funds. The City reports these assets in the governmental activities column of the government-wide statement of net position but does not report these assets in the Government fund financial statements. Capital assets utilized by enterprise funds are reported both in the business-type activities column of the government-wide statement of net position and in the enterprise funds' statement of net position.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five thousand dollars and an estimated three year life. Improvements to capital assets are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed. Interest incurred during the construction of capital assets utilized by enterprise funds is capitalized.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement.

Depreciation is computed using the straight-line method over the following useful lives:

| Asset Class             | Estimated Lives         |                          |
|-------------------------|-------------------------|--------------------------|
|                         | Governmental Activities | Business-type Activities |
| Buildings               | 40 - 50 Years           | 40 - 50 Years            |
| Improvements            | 20 - 30 Years           | 20 - 30 Years            |
| Machinery and equipment | 5 - 10 Years            | 5 - 10 Years             |
| Infrastructure          | 7 - 75 Years            | 18.5 - 75 Years          |

At the inception of capital leases at the governmental fund reporting level, expenditures and an "other financing source" of an equal amount are reported at the net present value of future minimum lease payments.

### 1-E-6 Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the City's past experience of making termination payments. Upon termination of employment, employees receive 25% of accumulated sick leave.

Earned compensatory time is accrued at December 31, 2013. All compensated absence liabilities include salary-related payments, where applicable.

The total compensated absence liability is reported on the government-wide financial statements. Proprietary funds report the total compensated liability in each individual fund at the fund reporting level. Governmental funds report the compensated absence liability at the fund reporting level only "when matured (i.e., due)."

### 1-E-7 Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the these funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are “due for payment” during the current year. Bonds and local loans are recognized as a liability in the governmental fund financial statements when due.

#### ***1-E-8 Bond Premiums, Discounts and Issuance Costs***

On the government-wide statement of net position and the proprietary fund type statement of net position, debt premiums and discounts are netted against the debt payable. On the government-wide and proprietary fund type statement of activities, debt premiums and discounts, are deferred and amortized over the life of the using the effective interest method.

Bond issuance costs are recognized as an outflow of resources in the reporting period in which they are incurred.

#### ***1-E-9 Fund Equity***

Fund equity at the governmental fund financial reporting level is classified as “fund balance.” Fund equity for all other reporting is classified as “net position.”

***Fund Balance – Fund Balance*** – Generally, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

- ***Nonspendable*** – Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.
- ***Restricted*** – Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
- ***Committed*** – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council through the approval of a resolution or ordinance. Only the City Council also may modify or rescind the commitment.
- ***Assigned*** – Fund balances are reported as assigned when amounts are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. Through resolution, the City Council has authorized the City manager or designee to assign fund balances.
- ***Unassigned*** - Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balance only in the general fund. Negative unassigned fund balances may be reported in all funds.

***Net Position Flow Assumptions*** – In order to report net position as a restricted – net position and an unrestricted – net position in the government-wide and proprietary fund financial statements, the City has established a flow assumption policy. It is the City’s policy to use restricted – net position first before using unrestricted – net position.

***Fund Balance Flow Assumptions*** – It is the City’s policy to consider restricted fund balance to have been used before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, it is the City’s policy to use fund balance in the following order:

- Committed
- Assigned
- Unassigned

**Fund Balance Policy** – On August 21, 2006, the City Council adopted this policy by motion. The policy as adopted follows:

“The City will maintain a minimum undesignated general fund balance equal to 5% of general fund expenditures. In the event the undesignated general fund balance is used to provide for temporary funding of unforeseen emergency needs, the City will restore the undesignated general fund balance to the minimum of 5% within two years.”

**Net Position** – The net position represents the difference between assets and liabilities. The net position component, “net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the City has not spent) for the acquisition, construction or improvement of those assets. The net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The balance of the net position is reported as unrestricted.

#### ***1-E-10 Operating Revenues and Expenses***

Operating revenues and expenses generally result from providing services and producing and delivering goods in consistent with a proprietary fund’s principal ongoing operations. The principal operating revenues of the city’s utility funds and internal service funds are charges to customers for sales and services and vehicle replacement. The City also recognizes as operating revenue the portion of utility connection fees intended to recover the cost of connecting new customers to the water and sewer system.

Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, taxes, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues (i.e., investment earnings, operating grants and the gain on the disposition of capital assets) and non-operating expenses (i.e., interest expense).

#### ***1-E-11 Interfund Activity***

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and the after non-operating revenues/expenses section in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements (i.e., they are netted).

Transfers between governmental and business-type activities on the government-wide statement of activities are reported as general revenues. Transfers between funds reported in the governmental activities column are eliminated. Transfers between funds reported in the business type activities column are eliminated.

#### ***1-E-12 Estimates***

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

#### ***1-E-13 Comparative Data***

Comparative total data for the prior year have been presented only for individual funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified to be consistent with the current year’s presentation.

### ***Note 2 – Stewardship, Compliance and Accountability***

**2-A. Budgetary Information** – The City adopts biennial budgets for all governmental funds.

The legal level of control (the level at which expenditures may not legally exceed appropriations) for each adopted annual operating budget generally is the individual fund level. Any change in total to a fund requires approval of the City Council.

The City Manager or Finance Director may approve budget transfers between departments within a fund.

All budgets are adopted on a GAAP basis (i.e., modified accrual basis) All unexpended annual appropriations lapse at year-end.

### **Note 3 - Detailed Notes on All Funds**

#### **3A. Deposits and Investments**

**Custodial Credit Risk – Deposits** – In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's bank balances of deposits as of December 31, 2013, are entirely insured by Federal Depository Insurance (FDIC) up to \$250,000 and all deposits not covered by FDIC insurance are covered by Washington Public Deposit Protection Commission (WPDPC) of the State of Washington for amounts over \$250,000.

The WPDPC is a statutory authority established under RCW Chapter 39.58. It constitutes a multiple financial institution collateral arrangement that provides for additional assessments against members of the pool on a pro rata basis up to a maximum of 10 percent of each institution's public deposits. Provisions of RCW chapter 39.58, section 60 authorize the WPDPC to make pro rata assessments in proportion to the maximum liability of each such depository as it existed on the date of loss.

#### **Investments**

**Interest Rate Risk** – Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average of maturity of its investments to less than eight years.

At December 31, 2013, the City held the following investments:

| Investment<br>Type                     | Fair<br>Value        | Weighted<br>Average<br>Maturity - Years |
|--|----------------------|---|
| Federal Home Loan Bank                 | \$ 487,439           | 4.6                                     |
| Federal Home Loan Mortgage Corporation | 2,000,579            | 2.2                                     |
| Federal National Mortgage Association  | 8,290,841            | 4.5                                     |
| Certificate of deposit - U.S. Bank     | 1,000,000            | 0.0                                     |
| Total                                  | <u>\$ 11,778,859</u> |   |

**Credit Quality Risk** –Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of debt securities as of December 31, 2013 are:

| Debt<br>Security                       | S & P<br>Rating |
|--|-----------------|
| Federal Home Loan Bank                 | AAA             |
| Federal Home Loan Mortgage Corporation | AAA             |
| Federal National Mortgage Association  | AAA             |

### **Note 3 - Detailed Notes on All Funds (Continued)**

**Custodial Credit Risk - Investments** – For investments, custodial credit risk is the risk that, in the event of a bank failure, the City's investments may not be recovered. All City securities are held for safekeeping by US Bank, as the City's agent, in the City's name.

**Concentration of Credit Risk** –Concentration of credit risk is the risk of loss attributed to the magnitude of the City’s investment in a single issuer. Currently, the City does not have an investment policy relating to concentration of credit risk.

The City’s investments in the Federal Home Loan Bank and the Federal Home Loan Mortgage Corporation (Freddie Mac), government-sponsored enterprises, which are not explicitly backed by the federal government, are 4% and 17% of the City’s total investment portfolio market value, respectively.

**Cash & Investment Reconciliation:**

|  | Pooled<br>Cash and<br>Cash Equivalents | Investments       | Total                |
|--|--|-------------------|----------------------|
| Fund Reporting Level:                            |  |                   |                      |
| Governmental Fund Type - Balance Sheet           | \$ 589,997                             | \$ 4,285,009      | \$ 4,875,006         |
| Proprietary Fund Type Statement of Net Position: |  |                   |                      |
| Enterprise Funds                                 | 466,499                                | 6,708,538         | 7,175,037            |
| Internal Service Funds                           | 53,177                                 | 785,312           | 838,489              |
| Statement of Fiduciary Net Position              | 1,233,171                              | 2,927,603         | 4,160,774            |
| Total  | <u>\$ 2,342,844</u>                    | <u>14,706,462</u> | <u>\$ 17,049,306</u> |
| Cash   |  |                   | \$ 2,342,844         |
| Investments                                      |  |                   | <u>14,706,462</u>    |
| Total  |  |                   | <u>\$ 17,049,306</u> |

**3B. Receivables**

Receivables and payables are recorded on the City’s financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and in the case of receivables, collectibility.

**3C. Property Taxes**

The County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed to the City monthly. The following is the property tax calendar:

|             |  |
|-------------|--|
| January 1   | Property taxes are levied and become an enforceable lien against properties.         |
| February 14 | Tax bills are mailed.  |
| April 30    | First of two equal installment payments is due.                                      |
| May 31      | Assessed value of property established for next year's levy at 100% of market value. |
| October 31  | Second installment is due.   |



### 3-D. Capital Assets

Capital asset activity for the year ended December 31, 2013, was as follows:

| <b>Governmental Activities:</b><br>(including Internal Service fund): | Restated<br>Beginning<br>Balance<br>1/1/2013 | Increases    | Decreases    | Ending<br>Balance<br>12/31/2013 |
|---|--|--------------|--------------|---------------------------------|
| Nondepreciable capital assets:  |  |              |              |                                 |
| Land  | \$ 1,538,605                                 | \$ -         | \$ -         | \$ 1,538,605                    |
| Construction in progress  | 4,873,154                                    | 1,331,477    | 1,593,257    | 4,611,374                       |
| Total nondepreciable capital assets                                   | 6,411,759                                    | 1,331,477    | 1,593,257    | 6,149,979                       |
| Depreciable capital assets  |  |              |              |                                 |
| Buildings   | 13,182,210                                   | -            | -            | 13,182,210                      |
| Improvements other than buildings                                     | 1,366,690                                    | -            | -            | 1,366,690                       |
| Machinery and equipment   | 5,544,994                                    | 721,013      | 444,356      | 5,821,651                       |
| Infrastructure  | 21,018,828                                   | 1,724,015    | -            | 22,742,843                      |
| Total depreciable capital assets                                      | 41,112,722                                   | 2,445,028    | 444,356      | 43,113,394                      |
| Total capital assets  | 47,524,481                                   | 3,776,505    | 2,037,613    | 49,263,373                      |
| Less accumulated depreciation for:                                    |  |              |              |                                 |
| Buildings   | 7,711,348                                    | 290,096      | -            | 8,001,444                       |
| Improvements other than buildings                                     | 1,099,483                                    | 30,773       | -            | 1,130,256                       |
| Machinery and equipment   | 3,372,659                                    | 420,146      | 418,956      | 3,373,849                       |
| Infrastructure  | 13,519,174                                   | 794,232      | -            | 14,313,406                      |
| Total accumulated depreciation  | 25,702,664                                   | 1,535,247    | 418,956      | 26,818,955                      |
| Governmental activities capital assets, net                           | \$ 21,821,817                                | \$ 2,241,258 | \$ 1,618,657 | \$ 22,444,418                   |

**Note 3 - Detailed Notes on All Funds (Continued)**

|  | Restated<br>Beginning<br>Balance<br>1/1/2013* | Increases           | Decreases           | Ending<br>Balance<br>12/31/2013 |
|--|---|---------------------|---------------------|---------------------------------|
| <b>Business-Type Activities:</b>             |   |                     |                     |                                 |
| Nondepreciable capital assets:               |   |                     |                     |                                 |
| Land   | \$ 2,128,469                                  | \$ -                | \$ -                | \$ 2,128,469                    |
| Construction in progress                     | 5,086,237                                     | 3,289,564           | 1,758,034           | 6,617,767                       |
| Total nondepreciable capital assets          | <u>7,214,706</u>                              | <u>3,289,564</u>    | <u>1,758,034</u>    | <u>8,746,236</u>                |
| Depreciable capital assets:                  |   |                     |                     |                                 |
| Buildings                                    | 1,745,808                                     | -                   | -                   | 1,745,808                       |
| Improvements other than buildings            | 21,168  | -                   | -                   | 21,168                          |
| Machinery and equipment                      | 590,824                                       | 30,646              | -                   | 621,470                         |
| Infrastructure                               | 38,378,376                                    | 1,900,026           | 135,145             | 40,143,257                      |
| Intangibles                                  | 2,325,864                                     | 400,242             | -                   | 2,726,106                       |
| Total depreciable capital assets             | <u>43,062,040</u>                             | <u>2,330,914</u>    | <u>135,145</u>      | <u>45,257,809</u>               |
| Total capital assets                         | <u>50,276,746</u>                             | <u>5,620,478</u>    | <u>1,893,179</u>    | <u>54,004,044</u>               |
| Less accumulated depreciation for:           |   |                     |                     |                                 |
| Buildings                                    | 750,310                                       | 81,831              | -                   | 832,141                         |
| Improvements other than buildings            | 18,943  | 535                 | -                   | 19,478                          |
| Machinery and equipment                      | 290,339                                       | 57,570              | -                   | 347,909                         |
| Infrastructure                               | 14,339,367                                    | 511,136             | 55,659              | 14,794,844                      |
| Intangibles                                  | 622,725                                       | 276,141             | -                   | 898,866                         |
| Total accumulated depreciation               | <u>16,021,684</u>                             | <u>927,213</u>      | <u>55,659</u>       | <u>16,893,238</u>               |
| Business-type activities capital assets, net | <u>\$ 34,255,062</u>                          | <u>\$ 4,693,265</u> | <u>\$ 1,837,520</u> | <u>\$ 37,110,806</u>            |

\*Certain assets were reclassified from the infrastructure classification to the intangible classification.

**Depreciation Expense by Function:**

|   |                     |
|---|---------------------|
| <b>Governmental Activities</b>                        |                     |
| General Government                                    | \$ 96,104           |
| Public Safety   | 168,227             |
| Physical Environment                                  | 186,295             |
| Transportation  | 803,621             |
| Economic Environment                                  | 17,042              |
| Culture and Recreation                                | <u>263,958</u>      |
| Total Depreciation Expense - Governmental Activities  | <u>\$ 1,535,247</u> |
| <b>Business-type Activities</b>                       |                     |
| Sewer   | \$ 421,817          |
| Water   | 358,182             |
| Storm Water   | <u>147,214</u>      |
| Total Depreciation Expense - Business-Type Activities | <u>\$ 927,213</u>   |

### **Note 3 - Detailed Notes on All Funds (Continued)**

#### **3-E. - Interfund Transfers**

Interfund transfers for the year ended December 31, 2013, consisted of the following:

| Transfers to                | Transfers from:   |                             |                     |
|-----------------------------|-------------------|-----------------------------|---------------------|
|                             | General Fund      | Nonmajor Governmental Funds | Total               |
| Debt Service Fund           | \$ 185,000        | \$ 200,000                  | \$ 385,000          |
| Street Construction Fund    | -                 | 270,000                     | 270,000             |
| Capital Improvements Fund   | 175,000           | -                           | 175,000             |
| Nonmajor Governmental Funds | 413,669           | -                           | 413,669             |
| Total                       | <u>\$ 773,669</u> | <u>\$ 470,000</u>           | <u>\$ 1,243,669</u> |

Transfers are used to report revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed.

Generally, all City transfers either occur on a regular basis or are consistent with the purpose of the fund making the transfer.

#### **3-F. Short-Term Debt**

On January 20, 2009, the City Council adopted an ordinance authorizing the issuance of up to \$2,700,000 of limited tax general obligation bond anticipation notes (i.e., non-voted) to provide financing for an interim city hall for the next five years. U.S. Bank is providing the interim financing. The draws for tax-exempt purposes bear's interest at 89.5% of the prime rate and draws that are not used for a permitted tax-exempt purpose bear interest at 131% of the prime rate. The total borrowing shall mature five years from the date of the initial delivery, or January 28, 2014. Interest is paid quarterly on the last day of each calendar quarter. The City refinanced this short term debt with a limited tax general obligation bond on October 8, 2013. This new long term debt, 2013 Series B (Taxable), is included in Note 3-G.

Changes in the short-term obligations consisted of the following for the year ended December 31, 2013:

|                         | Outstanding<br>1/1/2013 | Additions         | Reductions          | Outstanding<br>12/31/2013 |
|-------------------------|-------------------------|-------------------|---------------------|---------------------------|
| Bond anticipation notes | <u>\$ 1,180,000</u>     | <u>\$ 480,000</u> | <u>\$ 1,660,000</u> | <u>\$ -</u>               |

#### **3-G. Long-Term Debt**

This City issues general obligation bonds and revenue bonds to finance the acquisition and construction of capital facilities. Bonded indebtedness has also been entered into (currently and in prior years) to advance refund several general obligation and revenue bonds. General obligation bonds have been issued for both general government and business-type activities and are being repaid from the applicable resources. The revenue bonds are being repaid by proprietary fund revenues. The City's long-term debt is not subject to arbitrage as the general obligation bond issues were under the arbitrage exclusion limit of \$5,000,000, and the revenue bond proceeds will be expended within two years of receipt.

### ***Note 3 - Detailed Notes on All Funds (Continued)***

#### ***Governmental Activities General Obligation Bonds***

The City has two outstanding general obligation bonds, as follows:

| Bond Issue                   | Purpose                       | Range       | Rate  | Amount    |
|------------------------------|-------------------------------|-------------|-------|-----------|
| 2013A Refunding Bonds        | Refinance 1993A & 2001 Bonds  | 2013 - 2022 | 2.08% | 1,490,000 |
| 2013B Gen'l Obligation Bonds | Refinance BAN Short Term Debt | 2014 - 2020 | 3.70% | 1,680,000 |

The net proceeds of \$1,467,663 (after payment of \$17,650 in underwriting fees, insurance, and other closing costs net of \$4,687 non-refunding proceeds) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2001 Series limited tax general obligation bonds and the 2003 Series A limited tax general obligation and refunding bonds. As a result, the 2001 Series and 2003 Series A bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net position.

The City advance refunded the 2001 Series bonds and the 2003 Series A to reduce its total debt service payments over the next nine years by \$213,928 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$106,621.

Annual debt service requirements to amortize general obligations bonds outstanding, as of December 31, 2013 follow:

| Year      | Principal           | Interest          | Total               |
|-----------|---------------------|-------------------|---------------------|
| 2014      | \$ 445,000          | \$ 100,879        | \$ 545,879          |
| 2015      | 520,000             | 78,287            | 598,287             |
| 2016      | 410,000             | 63,826            | 473,826             |
| 2017      | 370,000             | 51,572            | 421,572             |
| 2018      | 355,000             | 39,988            | 394,988             |
| 2019-2022 | 960,000             | 52,168            | 1,012,168           |
| Total     | <u>\$ 3,060,000</u> | <u>\$ 386,720</u> | <u>\$ 3,446,720</u> |

***Governmental Activities Local Loan*** – The City received a loan from the Washington State Local Option Capital Asset Lending (LOCAL) Loan program for the purchase, construction and installation of a new HVAC system at the Pavilion on March 13, 2003 in the amount of \$1,200,000. The loan is due in semi-annual installments of \$39,000 to \$60,000 through December 2014, with an interest rate of 3.44%.

Annual debt service requirements to amortize the local loan outstanding, as of December 31, 2013 follow:

| Year | Principal         | Interest        | Total             |
|------|-------------------|-----------------|-------------------|
| 2014 | <u>\$ 120,275</u> | <u>\$ 3,101</u> | <u>\$ 123,376</u> |

**Business-type Activities – Revenue Bonds** – The City has three outstanding revenue bond issues that were issued to fund the design and construction of a 2.13 million gallon water reservoir and are outstanding as follows:

| Bond Issue                      | Bond Purpose                       | Maturity Range | Interest Rate | Original Issue Amount |
|---------------------------------|------------------------------------|----------------|---------------|-----------------------|
| Public Works Trust<br>Loan Fund | Preconstruction<br>Water Reservoir | 2002 - 2021    | 0.5%          | \$ 248,625            |
| Public Works Trust<br>Loan Fund | Construction<br>Water Reservoir    | 2003 - 2022    | 0.5%          | 1,166,800             |

**Note 3 - Detailed Notes on All Funds (Continued)**

Annual debt service requirements to amortize the public works trust fund loan outstanding, as of December 31, 2013 follow:

| Year      | Principal         | Interest         | Total             |
|-----------|-------------------|------------------|-------------------|
| 2014      | \$ 98,984         | \$ 4,371         | \$ 103,355        |
| 2015      | 98,984            | 3,876            | 102,860           |
| 2016      | 98,984            | 3,381            | 102,365           |
| 2017      | 98,984            | 2,886            | 101,870           |
| 2018      | 98,984            | 2,392            | 101,376           |
| 2019-2022 | 379,332           | 4,618            | 383,950           |
| Total     | <u>\$ 874,252</u> | <u>\$ 21,524</u> | <u>\$ 895,776</u> |

Water and Sewer Revenue Bonds, Series 2010 – On August 30, 2010, the City issued \$6,280,000 of revenue bonds with a premium of \$257,596 at an average coupon interest rate of 3.475%. The bonds mature on December 1, 2030. The purpose of this issue is for utility capital improvements, including a public works shop building.

As of December 31, 2013 there is unamortized premium of \$214,663 remaining on the Series 2010 debt. Annual debt service requirements to amortize the revenue bonds outstanding, as of December 31, 2013 follow:

| Year      | Principal           | Interest            | Total               |
|-----------|---------------------|---------------------|---------------------|
| 2014      | \$ 245,000          | \$ 211,525          | \$ 456,525          |
| 2015      | 250,000             | 206,625             | 456,625             |
| 2016      | 255,000             | 201,625             | 456,625             |
| 2017      | 265,000             | 191,425             | 456,425             |
| 2018      | 275,000             | 180,825             | 455,825             |
| 2019-2023 | 1,550,000           | 732,275             | 2,282,275           |
| 2024-2028 | 1,875,000           | 403,000             | 2,278,000           |
| 2029-2030 | 860,000             | 52,000              | 912,000             |
| Total     | <u>\$ 5,575,000</u> | <u>\$ 2,179,300</u> | <u>\$ 7,754,300</u> |

Water and Sewer Revenue Bonds, Series 2012 – On October 31, 2012 the City issued \$5,145,000 of revenue bonds with a premium of \$364,263 at an average coupon interest rate of 2.75%. The bonds mature on December 1, 2032. The purpose of this issue is for utility capital improvements, including replacing all water meters with automated meters, and detention and water quality projects.

***Note 3 - Detailed Notes on All Funds (Continued)***

As of December 31, 2013 there is unamortized premium of \$343,014 remaining on the Series 2012 debt. Annual debt service requirements to amortize the revenue bonds outstanding, as of December 31, 2013 follow:

| <u>Year</u> | <u>Principal</u>    | <u>Interest</u>     | <u>Total</u>        |
|-------------|---------------------|---------------------|---------------------|
| 2014        | \$ 205,000          | \$ 140,200          | \$ 345,200          |
| 2015        | 210,000             | 136,100             | 346,100             |
| 2016        | 215,000             | 131,900             | 346,900             |
| 2017        | 215,000             | 127,600             | 342,600             |
| 2018        | 220,000             | 123,300             | 343,300             |
| 2019-2023   | 1,210,000           | 512,850             | 1,722,850           |
| 2024-2028   | 1,400,000           | 320,400             | 1,720,400           |
| 2029-2032   | <u>1,280,000</u>    | <u>97,500</u>       | <u>1,377,500</u>    |
| Total       | <u>\$ 4,955,000</u> | <u>\$ 1,589,850</u> | <u>\$ 6,544,850</u> |

***Other Outstanding Debt – Compensated Absences*** - Accumulated vacation time shall not exceed 40 working days per employee at the beginning of any new fiscal year. Sick leave can accumulate from year to year. Accrued amounts are based on the vested portion, which is determined by termination provisions. Upon termination of employment, compensation provisions provide a benefit to the employee at the rate of 25% of accumulated sick leave.

The recorded accruals for compensated absences included in governmental activities are as follows:

|                   |                   |
|-------------------|-------------------|
| Vacation          | \$ 481,053        |
| Sick leave        | 276,936           |
| Compensatory time | <u>38,156</u>     |
| Total             | <u>\$ 796,145</u> |

***Changes in Long-term Debt*** - Changes in the City's long-term obligations consisted of the following for the year ended December 31, 2013 (includes internal service fund):

|                                | Outstanding<br>1/1/2013 | Additions        | Reductions          | Outstanding<br>12/31/2013 | Amounts Due<br>in One Year |
|--------------------------------|-------------------------|------------------|---------------------|---------------------------|----------------------------|
| Governmental Activities        |                         |                  |                     |                           |                            |
| General obligation bonds       | \$ 1,580,000            | \$ 3,170,000     | \$ 1,690,000        | \$ 3,060,000              | \$ 445,000                 |
| Local loan                     | 235,857                 | -                | 115,582             | 120,275                   | 120,274                    |
| Public works board loan        | -                       | 11,698           | -                   | 11,698                    | -                          |
| Compensated absences           | 843,378                 | 455,848          | 503,081             | 796,145                   | 159,229                    |
| OPEB                           | 1,580,871               | 928,841          | 430,363             | 2,079,349                 | -                          |
| Total Governmental Activities  | <u>\$ 4,240,106</u>     | <u>4,566,387</u> | <u>\$ 2,739,026</u> | <u>\$ 6,067,467</u>       | <u>\$ 724,503</u>          |
| Business-Type Activities       |                         |                  |                     |                           |                            |
| Public works trust fund loan   | \$ 990,353              | \$ -             | \$ 116,101          | \$ 874,252                | \$ 116,101                 |
| Utility revenue bonds          | 10,960,000              | -                | 430,000             | 10,530,000                | 450,000                    |
| Unamortized bond premium       | 588,772                 | -                | 31,094              | 557,678                   | 31,093                     |
| Total loans and bonds          | 12,539,125              | -                | 577,195             | 11,961,930                | 597,194                    |
| Compensated absences           | 122,635                 | 58,065           | 61,318              | 119,382                   | 23,876                     |
| Total Business-Type Activities | <u>\$ 12,661,760</u>    | <u>\$ 58,065</u> | <u>\$ 638,513</u>   | <u>\$ 12,081,312</u>      | <u>\$ 621,070</u>          |

### ***Note 3 - Detailed Notes on All Funds (Continued)***

The general obligation bonds and the local loan are being retired by the debt service fund. The compensated absences liability and net OPEB obligation will be paid from the fund from which the employees' salaries are paid. The public works trust fund loan is being retired from the water utility fund. The water and sewer revenue bonds are being retired by water utility fund (41.666%), sewer utility fund (16.666%) and the storm water utility fund (41.666%). The 2012 revenue bonds are being retired by the water utility fund (31.37%), and the storm water utility fund (68.83%).

### ***3-H. Operating Lease***

On November 15, 2013, the City entered into an operating lease agreement with the Mountlake Terrace Senior's Group, a Nonprofit Organization, for the use of the Ballinger Golf Course Clubhouse.

The minimum lease payments are as follows:

| Year  | Minimum Lease<br>Payments |
|-------|---------------------------|
| 2014  | \$ 18,000                 |
| 2015  | 18,000                    |
| 2016  | 18,000                    |
| 2017  | 18,000                    |
| 2018  | 18,000                    |
| Total | <u>\$ 90,000</u>          |

### ***3-I. Pensions***

Substantially all (city/county/district) full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia,

WA 98504-8380; or it may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov). The following disclosures are made pursuant to the GASB Statement 27, Accounting for Pensions by State and Local Government Employers and the GASB Statement 50, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.

### ***Public Employees' Retirement System (PERS) Plans 1, 2 or 3***

#### ***Plan Description***

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan.

PERS Participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

#### ***Note 3 - Detailed Notes on All Funds (Continued)***

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3 and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.



PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any worker's compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with 5 years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by three percent for each year before age 65.
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the members will retire at age 65.

For DRS' fiscal year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

The defined benefit portion of PERS Plan 3 provides members of a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least 10 service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is two percent of the AFC per year of service. For Plan 3, the monthly benefit amount is one percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted based on the Consumer Price Index, capped at three percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty related death benefit is provided to the beneficiary or the estate of a PERS member who dies as the result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

|  |                       |
|--|-----------------------|
| Retirees and beneficiaries receiving benefits                      | 82,242                |
| Terminated plan members entitled to but not yet receiving benefits | 30,515                |
| Active plan members vested   | 106,317               |
| Active plan members nonvested                                      | <u>44,273</u>         |
| Total  | <u><u>263,347</u></u> |

### ***Funding Policy***

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6% for state agencies and local government unit employees, and at 7.5% for state government elected officials. The employer and employee contributions rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2013, were as follows:

|           | <b>PERS Plan 1</b> | <b>PERS Plan 2</b> | <b>PERS Plan 3</b> |
|-----------|--------------------|--------------------|--------------------|
| Employer* | 9.21% **           | 9.21% **           | 9.21% ***          |
| Employee  | 6.00% ****         | 4.92% ****         | *****              |

\* The employer rates include the employer administrative expense fee currently set at 0.18%.

\*\* The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.

\*\*\* Plan 3 defined benefit portion only.

\*\*\*\* The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.

\*\*\*\*\* Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member

Both the City and the employees made the required contributions. The city's required contributions for the years ended December 31 were as follows:

| <u>Year</u> |    | <u>PERS<br/>Plan 1</u> |    | <u>PERS<br/>Plan 2</u> |    | <u>PERS<br/>Plan 3</u> |
|-------------|----|------------------------|----|------------------------|----|------------------------|
| 2013        | \$ | 14,051                 | \$ | 409,587                | \$ | 62,118                 |
| 2012        |    | 12,208                 |    | 374,207                |    | 56,653                 |
| 2011        |    | 10,677                 |    | 316,449                |    | 43,871                 |

### ***Law Enforcement Officers' and Firefighters' Retirement System (LEOFF) Plans 1 and 2***

#### ***Plan Description***

The Legislature established LEOFF in 1970. Membership in the system includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005 emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan.

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest rate at a specified by the Director of DRS. During DRS' fiscal year 2013, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary is as follows:

| <u>Terms of<br/>Service</u> | <u>% of<br/>Final<br/>Average</u> |
|-----------------------------|-----------------------------------|
| 20 +                        | 2.0%                              |
| 10 - 20                     | 1.5%                              |
| 5 - 10                      | 1.0%                              |

The final average salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index.)

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus five percent of FAS for each eligible surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) If no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus five percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability allowance or service retirement allowance.

LEOFF Plan 2 members are vested after the completion of five years of eligible service.

Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at the age of 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is two percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53.

A disability benefit equal to 70 percent of their FAS, subject to offsets for worker's compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement benefit of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of eligible health care insurance premiums.

Legislation passed in 2009 provides to the Washington-state-registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

LEOFF members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

|  |                      |
|--|----------------------|
| Retirees and beneficiaries receiving benefits                      | 10,189               |
| Terminated plan members entitled to but not yet receiving benefits | 689                  |
| Active plan members vested   | 14,273               |
| Active plan members nonvested                                      | <u>2,633</u>         |
| Total  | <u><u>27,784</u></u> |

### ***Funding Policy***

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and could be changed by statute. For DRS' fiscal year 2013, the state contributed \$54.2million to the LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2013, are as follows:

|           | <b>LEOFF Plan 1</b> | <b>LEOFF Plan 2</b> |
|-----------|---------------------|---------------------|
| Employer* | 0.18%               | 5.23%**             |
| Employee  | 0.00%               | 8.41%               |
| State     | N/A                 | 3.36%               |

\*The employer rates include the employer administrative expense fee currently set at 0.18%.

\*\* The employer rate for ports and universities is 8.59%.

Both the city and the employees made the required contributions. The city's required contributions for the years ended December 31 were as follows:

| Year | LEOFF<br>Plan 1 | LEOFF<br>Plan 2 |
|------|-----------------|-----------------|
| 2013 | \$ -            | \$ 125,494      |
| 2012 | -               | 131,381         |
| 2011 | -               | 131,308         |

### ***Other Retirement Systems and Other Employee Benefit Trust Funds***

#### ***Volunteer Firefighters Relief and Pension Fund***

The Volunteer Firefighters Relief and Pension Fund System is a cost-sharing multiple-employer retirement system, which was created by the Legislature in 1945 under Chapter 41.16 RCW. It provides pension, disability, and survivor benefits. Membership in the system requires service with a fire department of an electing municipality of Washington State (except those employees covered by LEOFF).

The system is funded through member contributions of \$30 per year, employer contributions of \$30 per year, and 40% of the Fire Insurance Premium Tax. Members do not earn interest on their contributions. However, they may elect to withdraw their contribution upon termination.

#### ***Municipal Employees Benefit Trust***

On September 30, 1975, the City elected, pursuant to law, to withdraw from the Federal Social Security System. A substitute defined contribution plan, known as the Municipal Employees Benefit Trust (MEBT), was set up under Internal Revenue Code requirements. A board, comprised of City employees, is empowered with the leadership of the Trust. All regular full-time and part-time employees are eligible to participate in the program.

The City and the participants are required to contribute an amount equal to that, which would have been required under the Federal Insurance Contribution Act (less the amount contributed for Medicare insurance.) For 2013, the City's contribution rate was 4.96% and the participant's contribution rates were 6.2% of gross salary. Contributions by temporary employees are 7.5% of salary as required by law for employees not covered by any other retirement program.

Until the year 2000, every participant could contribute additional voluntary amounts not to exceed 10% of the participant's total compensation for all participating years less total voluntary contributions for all previous plan years. Effective January 1, 2000, voluntary contributions were no longer permissible.

All participants have a non-forfeitable interest in the employee's mandatory and voluntary contributions. Participants vest at the rate of 20% per year (up to five years) in the employer's share of the account balance.

The City's covered payroll for the year ended December 31, 2013 was \$8,596,086.

The City's contribution rates, expressed as a percentage of covered payroll, and actual contributions for the year ended December 31, 2013 were:

|          | Contribution<br>Rate | Amount    |
|----------|----------------------|-----------|
| Employer | 4.96%                | \$418,483 |
| Employee | 6.2% or 7.5%         | 518,104   |

The market value of assets available for plan benefits as of December 31, 2013 is \$19,249,337. Assets of the plan are not the property of the City and are not included in the accompanying financial statements.

### **3-J. Other Postemployment Benefits**

**Plan Description** - As required by the Revised Code of Washington (RCW) Chapter 41.26, the City provides lifetime medical care for 26 LEOFF 1 retirees. The City provides medical insurance and reimbursements for all necessary hospital, medical, and nursing care expenses not payable by worker's compensation, social security, insurance provided by another employer, other pension plan, or any other similar source are covered. Medical insurance for the retirees is provided by the City's employee medical insurance program. Under the authorization of the LEOFF Disability Board, direct payment is made for other retiree medical expenses not covered by standard medical plan benefit provisions.

**Plan Description (Medical Services)** - There are basically two sections in the Chapter 41 Revised Code of Washington (RCW 41) that outline the medical services the City is obligated to provide to LEOFF I members: RCW 41.26.030(22) and 41.26.150. The two RCWs are listed in reverse below, since it is the latter section that provides the broad requirement:

41.26.150 - Sickness or disability benefits — Medical services.

(1) Whenever any active member, or any member hereafter retired, on account of service, sickness, or disability, not caused or brought on by dissipation or abuse, of which the disability board shall be judge, is confined in any hospital or in home, and whether or not so confined, requires medical services, the employer shall pay for the active or retired member the necessary medical services not payable from some other source as provided for in subsection (2) of this section. In the case of active or retired firefighters the employer may make the payments provided for in this section from the firemen's pension fund established pursuant to RCW 41.16.050 where the fund had been established prior to March 1, 1970. If this pension fund is depleted, the employer shall have the obligation to pay all benefits payable under chapters 41.16 and 41.18 RCW

(a) The disability board in all cases may have the active or retired member suffering from such sickness or disability examined at any time by a licensed physician or physicians, to be appointed by the disability board, for the purpose of ascertaining the nature and extent of the sickness or disability, the physician or physicians to report to the disability board the result of the examination within three days thereafter. Any active or retired member who refuses to submit to such examination or examinations shall forfeit all rights to benefits under this section for the period of the refusal.

(b) The disability board shall designate the medical services available to any sick or disabled member.

(2) The medical services payable under this section will be reduced by any amount received or eligible to be received by the member under workers' compensation, social security including the changes incorporated under Public Law 89-97, insurance provided by another employer, other pension plan, or any other similar source. Failure to apply for coverage if otherwise eligible under the provisions of Public Law 89-97 shall not be deemed a refusal of payment of benefits thereby enabling collection of charges under the provisions of this chapter.

(3) Upon making the payments provided for in subsection (1) of this section, the employer shall be subrogated to all rights of the member against any third party who may be held liable for the member's injuries or for payment of the cost of medical services in connection with a member's sickness or disability to the extent necessary to recover the amount of payments made by the employer.

(4) Any employer under this chapter, either singly, or jointly with any other such employer or employers through an association thereof as provided for in chapter 48.21 RCW, may provide for all or part of one or more plans of group hospitalization and medical aid insurance to cover any of its employees who are members of the Washington law enforcement officers' and firefighters' retirement system, and/or retired former employees who were, before retirement, members of the retirement system, through contracts with regularly constituted insurance carriers, with health maintenance organizations as defined in chapter 48.46 RCW, or with health care service contractors as defined in chapter 48.44 RCW. Benefits payable under any the [under the] plan or plans shall be deemed to be amounts received or eligible to be received by the active or retired member under subsection (2) of this section.

(5) Any employer under this chapter may, at its discretion, elect to reimburse a retired former employee under this chapter for premiums the retired former employee has paid for medical insurance that supplements Medicare, including premiums the retired former employee has paid for Medicare part B coverage.

RCW 41.26.030(22) defines the actual medical services to be provided to LEOFF I members.

“Medical services” for plan 1 members, shall include the following as minimum services to be provided. Reasonable charges for these services shall be paid in accordance with RCW 41.26.150.

- (a) Hospital expenses: These are the charges made by a hospital, in its own behalf, for
- (i) Board and room not to exceed semiprivate room rate unless private room is required by the attending physician due to the condition of the patient.
  - (ii) Necessary hospital services, other than board and room, furnished by the hospital.
  - (iii) Other medical expenses: The following charges are considered "other medical expenses", provided that they have not been considered as "hospital expenses".
    - a. The fees of the following:
      - i. A physician or surgeon licensed under the provisions of chapter 18.71 RCW;
      - ii. An osteopathic physician and surgeon licensed under the provisions of chapter 18.57 RCW;
      - iii. A chiropractor licensed under the provisions of chapter 18.25 RCW.
    - b. The charges of a registered graduate nurse other than a nurse who ordinarily resides in the member's home, or is a member of the family of either the member or the member's spouse.
    - c. The charges for the following medical services and supplies:
      - i. Drugs and medicines upon a physician's prescription;
      - ii. Diagnostic X-ray and laboratory examinations;
      - iii. X-ray, radium, and radioactive isotopes therapy;
      - iv. Anesthesia and oxygen;
      - v. Rental of iron lung and other durable medical and surgical equipment;
      - vi. Artificial limbs and eyes, and casts, splints, and trusses;
      - vii. Professional ambulance service when used to transport the member to or from a hospital when injured by an accident or stricken by a disease;
      - viii. Dental charges incurred by a member who sustains an accidental injury to his or her teeth and who commences treatment by a legally licensed dentist within ninety days after the accident;
      - ix. Nursing home confinement or hospital extended care facility;
      - x. Physical therapy by a registered physical therapist;
      - xi. Blood transfusions, including the cost of blood and blood plasma not replaced by voluntary donors;
      - xii. An optometrist licensed under the provisions of chapter 18.53 RCW

***Plan Description (Long-Term Care Insurance)*** - To address the “nursing home confinement or hospital extended care facility” requirement under Washington law, we have a contract with UNUM insurance for long-term-care. The policy covers the following:

- Up to \$3,000 per month toward a long term residential care facility;
- Up to \$1,800 per month toward an assisted living facility;

These amounts are adjusted for inflation on an annual basis.

***Plan Description (Medicare Premiums)*** - The City also pays the Medicare premium for qualifying LEOFF I retirees as outlined in RCW 41. The cost of this premium (approximately \$100 per month in 2012) is



offset by a lower insurance premium.

**Funding Policy-** Funding for LEOFF 1 retiree healthcare costs is provided by the City as required by RCW. The City has not advance-funded or established a funding methodology for the annual OPEB costs or to retire the net OPEB obligation (i.e., the City's funding policy is based upon pay-as-you-go financing requirements).

**Annual OPEB Cost and Net OPEB Obligation** – The following table includes the City's annual OPEB cost for the last two years, the amount actually contributed to the plan, and the changes in the City's net OPEB obligation:

|                                       | <u>December 31, 2013</u> | <u>December 31, 2012</u> |
|---------------------------------------|--------------------------|--------------------------|
| Annual required contribution (ARC)    | \$ 1,007,791             | \$ 714,981               |
| Interest on net pension obligation    | 63,235                   | 62,922                   |
| Contributions made                    | (430,363)                | (465,109)                |
| Amortization of net OPEB obligation   | <u>(142,185)</u>         | <u>(130,199)</u>         |
| Increase in net OPEB obligation       | 498,478                  | 182,595                  |
| Net OPEB obligation beginning of year | <u>1,580,871</u>         | <u>1,398,276</u>         |
| Net OPEB obligation end of year       | <u>\$ 2,079,349</u>      | <u>\$ 1,580,871</u>      |

**Funded Status and Funding Progress** – Since this is the fourth year of the plan, multiyear trend data is only available for four years. The City's funding status based upon the two most recent alternative method calculations follows:

| <u>Schedule of Funding Progress</u> |  |  |                                   |  |                                      |  | (6)  |
|-------------------------------------|--|--|-----------------------------------|--|--------------------------------------|--|--|
| Measurement<br>Date                 | (1)<br>Actuarial<br>Value<br>of Assets | (2)<br>Actuarial<br>Accrued<br>Liability (AAL) | (3)<br>Funded<br>Ratio<br>(1)/(2) | (4)<br>Unfunded<br>AAL/(UAAL)<br>(2)-(1) | (5)<br>Annual<br>Covered<br>Payroll* |  | UAAL as a<br>Percentage of<br>Covered<br>Payroll |
| 12/31/2010                          | \$ -                                   | \$ 7,703,942                                   | 0.0%                              | \$ 7,703,942                             | \$ -                                 |  | N/A  |
| 12/31/2011                          | -                                      | 8,369,518                                      | 0.0%                              | 8,369,518                                | -                                    |  | N/A  |
| 12/31/2012                          | -                                      | 7,678,571                                      | 0.0%                              | 7,678,571                                | -                                    |  | N/A  |
| 12/31/2013                          | -                                      | 11,205,013                                     | 0.0%                              | 11,205,013                               | -                                    |  | N/A  |

\* The covered payroll was zero as all covered employees are retired.

The annual OPEB cost for the last three fiscal years follows:

| Year Ended<br>December 31, | Annual<br>OPEB<br>Cost | Annual<br>OPEB<br>Contribution | Percentage<br>Contributed | Net OPEB<br>Obligation |
|----------------------------|------------------------|--------------------------------|---------------------------|------------------------|
| 2011                       | \$ 726,045             | \$ 434,998                     | 59.9%                     | \$ 1,398,276           |
| 2012                       | 647,704                | 465,109                        | 71.8%                     | 1,580,871              |
| 2013                       | 928,841                | 430,363                        | 46.3%                     | 2,079,349              |

**Alternative Measurement Method and Assumptions** – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of the calculation of the OPEB.

The City used the alternative measurement method to calculate the unfunded Accrued Actuarial Liability (AAL). The estimates of the values reported and assumptions about the probability of the future are actuarially determined amounts and are subject to continual revision and are compared to past expectations and new estimates are about future and actuarial calculations reflect a long term perspective. A single retirement age of 56.24 was assumed for all active members for the purpose of determining the AAL and normal cost. Retirement, disablement, termination and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2011 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2013. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the AAL was the Projected Unit Credit method. The AAL and Net OPEB Obligation are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

The City's alternative measurement information is as follows:

|                            |                           |
|----------------------------|---------------------------|
| Actuarial Cost Method      | Projected Unit Credit     |
| Amortization Method        | Level Dollar Amount, Open |
| Amortization Period        | 15 years                  |
| Asset Valuation Method     | N/A                       |
| Actuarial Assumptions:     |                           |
| Investment rate of return  | N/A                       |
| Healthcare Cost Trend Rate | 6.625%                    |

### 3-K. Fund Equity

**Fund Balances** – Fund balances are classified as follows:

- **Nonspendable** – The following fund balances are nonspendable because they are not in spendable form:

**General Fund:**

|             |                  |
|-------------|------------------|
| Inventories | <u>\$ 21,052</u> |
|-------------|------------------|

**Note 3 - Detailed Notes on All Funds (Continued)**

- **Restricted** – The following fund balances are legally restricted to specified purposes:

**Street Construction Fund:**

|                     |            |
|---------------------|------------|
| Street construction | \$ 195,486 |
|---------------------|------------|

**Capital Improvements Fund:**

|                    |            |
|--------------------|------------|
| Park improvements  | \$ 495,623 |
| Cable improvements | 132,057    |

|   |                   |
|---|-------------------|
| <b>Total Capital Improvements Fund:</b> | <b>\$ 627,680</b> |
|---|-------------------|

**Nonmajor Governmental Funds:**

|                             |           |
|-----------------------------|-----------|
| Street improvements         | \$ 54,761 |
| Tourism promotion           | 21,900    |
| Rental housing inspections  | 272,971   |
| Transportation improvements | 301,020   |
| Debt service                | 48,780    |
| Capital outlay              | 195,661   |

|   |                   |
|---|-------------------|
| <b>Total Nonmajor Governmental Funds:</b> | <b>\$ 895,093</b> |
|---|-------------------|

- **Committed** – The following fund balances are committed to specific purposes:

**General Fund:**

|                           |            |
|---------------------------|------------|
| Working capital           | \$ 692,611 |
| Contingencies             | 277,044    |
| Catastrophic fluctuations | 705,511    |
| Accrued leave             | 52,272     |

|                           |                     |
|---------------------------|---------------------|
| <b>Total General Fund</b> | <b>\$ 1,727,438</b> |
|---------------------------|---------------------|

- **Assigned** – The following fund balances are assigned to specific purposes:

**General Fund:**

|                       |           |
|-----------------------|-----------|
| Service charge relief | \$ 22,822 |
|-----------------------|-----------|

**Street Construction Fund:**

|                     |              |
|---------------------|--------------|
| Street construction | \$ 1,804,820 |
|---------------------|--------------|

**Capital Improvemnt Fund:**

|                |            |
|----------------|------------|
| Capital assets | \$ 187,734 |
|----------------|------------|

### ***Note 3 - Detailed Notes on All Funds (Continued)***

***Net Investment in Capital Assets*** – The net investment in capital assets, reported on the government-wide statement of net position as of December 31, 2013 are as follows:

|                                   | Governmental<br>Activities | Business-<br>type<br>Activities |
|-----------------------------------|----------------------------|---------------------------------|
| Net investment in capital assets: |                            |                                 |
| Cost of capital assets            | \$ 49,263,373              | \$ 54,004,044                   |
| Less accumulated depreciation     | 26,818,955                 | 16,893,238                      |
| Book value                        | 22,444,418                 | 37,110,806                      |
| Less capital related debt         | 1,511,973                  | 11,404,252                      |
| Add unspent bond proceeds         | -                          | 2,284,590                       |
| Less unamortized bond premium     | -                          | 557,678                         |
| Net investment in capital assets  | <u>\$ 20,932,445</u>       | <u>\$ 27,433,466</u>            |

### ***Note 4 - Other Notes***

#### ***4-A. Risk Management***

The City is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 162 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sub-limits in the excess layers. The Board of Directors determines the limits and terms of coverage annually. For the years 2008 through 2013 the City's insurance settlements have not exceeded its insurance coverage.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

#### **4-B. Contingent Liabilities**

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could result in a request for reimbursement to the grantor agency for costs disallowed under terms of the grant. Based on prior experience, the City believes such disallowances, if any, will be immaterial.

The City was a defendant in several lawsuits at December 31, 2013. In the opinion of City management, the outcome of these contingencies will not have a material effect on the financial position of the City.

#### **4-C. Joint Ventures**

**Snohomish County Emergency Radio System** - The City participates in a single joint venture with Snohomish County and other local governments in the “*Snohomish County Emergency Radio System*,” (SERS) a public non-profit corporation formed in 1999. The purpose of SERS is to design, develop, finance, acquire, install, operate, maintain and repair and replace the county's public safety communications service.

SERS was established via an interlocal agreement between the County, eight cities, and a fire district located within the county. Each member city and the County provide a voting member to the SERS board of directors. The purpose of SERS is to develop a countywide public safety communications system. The County financed its investment in SERS with general obligations bond proceeds.

The Cities of Brier, Edmonds, Everett, Lynnwood, Marysville, Mill Creek, Mountlake Terrace, Mukilteo and Woodway, and Snohomish County are jointly responsible for the financing of SERS. The interlocal agreement details clearly an allocation formula that determines each member's share in the joint venture and its reported equity interest in their respective financial statements. It incorporates population, geographic service area and usage of emergency service via service calls to dispatch centers. Each member provides a voting representative to SERS governing board of directors. The SERS board has the authority to approve system design, project expenditures and adopt SERS budget.

At December 31, 2013, the City owned an equity interest in the SERS joint venture of \$278,445. This value has been recorded in the government wide statements as an asset for the year ended December 31, 2013. The County financed its capital contribution to SERS via the issuance of bonded debt. The equity interest is adjusted to the extent of revenues and expenditure transactions occurring between the County and SERS as recorded in the County's financial system. The County, who acts as the entity's fiscal agent under the Administrative Services Agreement signed on January 19, 2000, prepares the unaudited financial information. Separate financial statements for the Snohomish County Emergency Radio System can be obtained from Snohomish County, Finance Department, 3000 Rockefeller Avenue, Everett, WA 98201

**Southwest Snohomish County Public Safety Communications Agency** - The City of Mountlake Terrace participates in a single joint venture with other local governments in the “*Southwest Snohomish County Public Safety Communications Agency*,” (SNOCOM) a public non-profit corporation formed in 1971 and incorporated in 2014. The purpose of SNOCOM is to provide public safety communications, records retention and usage and other board approved functions.

SNOCOM was established via an interlocal agreement between the City of Mountlake Terrace, six other cities and Snohomish County Fire District 1 all located within the county. Each member city and the Fire District provide voting members to the SNOCOM board of directors. The purpose of SNOCOM is to provide communications and dispatching for public health and safety services in Southwest Snohomish County.

The Cities of Brier, Edmonds, Lynnwood, Mill Creek, Mountlake Terrace, Mukilteo, Woodway and Fire District 1 are jointly responsible for the financing of SNOCOM. The interlocal agreement details clearly an allocation formula that determines each member's share in the joint venture and its reported equity interest in their respective financial statements. It incorporates each agency's population, assessed value and usage of 911 calls for service. Each member provides a voting representative to SNOCOM governing board of directors. The SNOCOM board has the authority to approve project expenditures and adopt SNOCOM budget.

At December 31, 2013, the City of Mountlake Terrace owned an equity interest in the SNOCOM joint venture of \$415,734. This value has been recorded in the government wide statements as an asset for the year ended December 31, 2013. The equity interest is adjusted to the extent of revenues and expenditure transactions occurring between the City of Mountlake Terrace and SNOCOM as recorded in the City of Mountlake Terrace's financial system. The City of Mountlake Terrace, who acts as the entity's fiscal agent under the Interlocal Agreement for Financial Services signed on November 25, 2009, prepares the unaudited financial information. Separate financial statements for the Snohomish County Public Safety Communication Agency can be obtained from the City of Mountlake Terrace, Finance Department, 6100 219<sup>th</sup> St SW, Suite 200, Mountlake Terrace, WA 98043.

### **Alliance for Housing Affordability (AHA)**

In September, 2013, the City joined the cities of Everett, Granite Falls, Lake Stevens, Lynnwood, Marysville, Mill Creek, Mountlake Terrace, Mukilteo, and Snohomish, the Town of Woodway, and Snohomish County to establish the Alliance for Housing Affordability (AHA). The agreement was amended in May, 2014 to add the City of Arlington and in June, 2014 to add the City of Stanwood.

The purpose of AHA is to cooperatively formulate affordable housing goals and policies and to foster efforts to provide affordable housing by providing expertise and information to member jurisdictions. Operating funding is provided by the member cities.

AHA is governed by a Joint Board composed of an elected official from each member. The Joint Board is responsible for review and approval of all budgetary, financial, policy, and contractual matters. The Board is assisted by an administrative staff housed at the Housing Authority for Snohomish County. Fiscal agent duties are performed by the City.

Each member city is responsible for contributing operating revenues as determined from the AHA annual budget. Contributions from the member cities are based on each member's population. A grant from the Gates Foundation provided \$50,000 to assist with the first two years of organizational start-up. The City's equity share to date is:

| <b>Calendar<br/>Year</b> | <b>AHA<br/>Budget</b> | <b>City's Share of AHA's Budget</b> |                   |
|--------------------------|-----------------------|-------------------------------------|-------------------|
|                          |                       | <b>Amount</b>                       | <b>Percentage</b> |
| 2013                     | \$ 89,850             | \$ 1,188                            | 1.3%              |
| 2014                     | 92,543                | 1,224                               | 1.3%              |

Members withdrawing from the agreement relinquish all rights to any reserve funds, equipment, or material purchased. Upon dissolution, the agreement provides for distribution of net assets among the members based on the percentage of the total annual contributions during the period of the agreement paid by each member.

Budget monitoring information can be obtained from Sonja Springer, Finance Director, City of Mountlake Terrace, 6100 219<sup>th</sup> Street SW, Mountlake Terrace WA 98043 (or email: [sspringer@ci.mlt.wa.us](mailto:sspringer@ci.mlt.wa.us)) or from Kristina Gallant, Housing Analyst, Alliance for Housing Affordability, 12625 4<sup>th</sup> Ave W, Suite 200, Everett, WA 98204

### **Edmonds Wastewater Treatment Plant**

The majority of the City's wastewater treatment services are provided by the City of Edmonds and Mountlake Terrace is a part owner of the Edmonds Wastewater Treatment Plant (EWWTP). A thirty year interlocal agreement between the two cities was signed in 1988 and will expire in 2018. According to the EWWTP Interlocal agreement, the City of Mountlake Terrace is responsible for paying 23.174% of the total capital improvement costs of this plant. The value of the City's share of EWWTP is included in the City's Intangible Asset section of the Sewer Utility Fund's capital assets.

#### 4-D. Encumbrance Commitments

As of December 31, 2013, the City has encumbered amounts that they intend to honor in the subsequent fiscal year for the following major governmental funds and nonmajor in the aggregate:

##### **Major Governmental Funds:**

|                           |              |
|---------------------------|--------------|
| General Fund              | \$ 76,868    |
| Street Construction Fund  | 1,800,333    |
| Capital Improvements Fund | <u>1,955</u> |

|                                       |                            |
|---------------------------------------|----------------------------|
| <b>Total Major Governmental Funds</b> | <b><u>\$ 1,879,156</u></b> |
|---------------------------------------|----------------------------|

#### 4-E. Prior Period Adjustment

The City has reported some prior period adjustments, all that restate the government-wide reporting and one that restates the .

**Joint Venture** - Management has determined that the City should have reported their equity interest in the “*Snohomish County Emergency Radio System*” joint venture at December 31, 2012.

**Road Projects** – The City capitalized and depreciated certain road projects should have been expensed. This adjustment reduces the cost of infrastructure and related accumulated depreciation for the various road projects.

**Accumulated Depreciation – Improvements Other Than Buildings** – Depreciation expense on certain improvements was not recorded in error and this adjustment adjusts the accumulated depreciation by \$886,333.

This prior period adjustments that affect the government-wide statement of activities are as follows:

| <u>December 31, 2012</u>      | <u>Governmental<br/>Activities</u> |  |
|-------------------------------|------------------------------------|--|
| Net position                  |                                    |  |
| as previously reported        | \$ 27,315,749                      |  |
| Add equity interest           |                                    |  |
| in joint venture              | 418,198                            |  |
| Delete:                       |                                    |  |
| Road projects costs           | (3,829,732)                        |  |
| Depreciation on road projects | 1,311,276                          |  |
| Add accumulated depreciation  |                                    |  |
| on improvements other than    |                                    |  |
| buildings                     | <u>(886,333)</u>                   |  |
| Net position, as restated     | <u>\$ 24,329,158</u>               |  |

***Intangible Assets – Depreciation*** - In the sewer fund, the City depreciated the intangible assets at a rate in excess of an allowable rate, therefore, both the net position in the sewer fund and the business-type activities are restated as follows:

| <u>December 31, 2011</u>               | <u>Governmental<br/>Activities</u> | <u>Sewer<br/>Fund</u> |
|--|------------------------------------|-----------------------|
| Net position<br>as previously reported | \$ -                               | \$ 7,925,090          |
| Reduce accumulated depreciation        |                                    | <u>1,152,168</u>      |
| Net position, as restated              | <u>\$ -</u>                        | <u>\$ 9,077,258</u>   |
| <br><u>December 31, 2012</u>           |                                    |                       |
| Net position<br>as previously reported | \$ 32,218,431                      | \$ 8,023,967          |
| Reduce accumulated depreciation        | <u>918,403</u>                     | <u>918,403</u>        |
| Net position, as restated              | <u>\$ 33,136,834</u>               | <u>\$ 8,942,370</u>   |



**City of Mountlake Terrace, Washington**  
**General Fund**  
*Schedule of Revenues, Expenditures and*  
*Changes in Fund Balances - Budget and Actual*  
*For the Year Ended December 31, 2013*

|   | <b>Original<br/>Budget</b> | <b>Final<br/>Budget</b> | <b>Actual</b>       | <b>Variance<br/>With Final<br/>Budget</b> |
|---|----------------------------|-------------------------|---------------------|---|
| <b>Revenues</b>                             |                            |                         |                     |   |
| Taxes                                       | \$ 10,305,726              | \$ 10,305,726           | \$ 10,377,758       | \$ 72,032                                 |
| Licenses and permits                        | 890,000                    | 890,000                 | 1,085,276           | 195,276                                   |
| Intergovernmental                           | 479,177                    | 516,677                 | 515,061             | (1,616)                                   |
| Charges for services                        | 4,905,181                  | 4,905,181               | 3,024,109           | (1,881,072)                               |
| Fines and forfeitures                       | 425,000                    | 425,000                 | 400,383             | (24,617)                                  |
| Rents and leases                            | 303,040                    | 303,040                 | 218,839             | (84,201)                                  |
| Investment earnings                         | 43,625                     | 43,625                  | (16,819)            | (60,444)                                  |
| Miscellaneous                               | 144,300                    | 144,300                 | 169,096             | 24,796                                    |
| <b>Total Revenues</b>                       | <u>17,496,049</u>          | <u>17,533,549</u>       | <u>15,773,703</u>   | <u>(1,759,846)</u>                        |
| <b>Expenditures</b>                         |                            |                         |                     |   |
| <b>Current:</b>                             |                            |                         |                     |   |
| General government                          | 3,330,405                  | 3,330,405               | 1,653,423           | 1,676,982                                 |
| Judicial                                    | 739,918                    | 739,918                 | 735,191             | 4,727                                     |
| Public safety                               | 7,861,179                  | 7,862,275               | 7,676,841           | 185,434                                   |
| Physical environment                        | 51,000                     | 51,000                  | 45,000              | 6,000                                     |
| Community development                       | 1,119,592                  | 1,160,950               | 1,028,393           | 132,557                                   |
| Culture and recreation                      | 3,696,123                  | 3,696,123               | 3,356,313           | 339,810                                   |
| <b>Total Expenditures</b>                   | <u>16,798,217</u>          | <u>16,840,671</u>       | <u>14,495,161</u>   | <u>2,345,510</u>                          |
| <b>Excess of Revenues Over Expenditures</b> | 697,832                    | 692,878                 | 1,278,542           | 585,664                                   |
| <b>Other Financing (Uses)</b>               |                            |                         |                     |   |
| Transfers out                               | <u>(831,535)</u>           | <u>(831,535)</u>        | <u>(773,669)</u>    | <u>57,866</u>                             |
| <b>Net Change in Fund Balances</b>          | <u>\$ (133,703)</u>        | <u>\$ (138,657)</u>     | 504,873             | <u>\$ 643,530</u>                         |
| <b>Fund Balances Beginning of Year</b>      |                            |                         | <u>2,178,846</u>    |   |
| <b>Fund Balances End of Year</b>            |                            |                         | <u>\$ 2,683,719</u> |   |

See accompanying notes to the required supplementary information

**City of Mountlake Terrace, Washington**  
**Street Construction Fund**  
**Schedule of Revenues, Expenditures and**  
**Changes in Fund Balances - Budget and Actual**  
**For the Year Ended December 31, 2013**

|  | <b>Original<br/>Budget</b> | <b>Final<br/>Budget</b> | <b>Actual</b>       | <b>Variance<br/>With Final<br/>Budget</b> |
|--|----------------------------|-------------------------|---------------------|---|
| <b>Revenues</b>  |                            |                         |                     |   |
| Intergovernmental  | \$ 3,885,168               | \$ 2,514,239            | \$ 1,210,181        | \$ (1,304,058)                            |
| Charges for services   | 130,000                    | 52,737                  | 62,871              | 10,134                                    |
| Investment earnings  | 45,750                     | 45,750                  | (29,591)            | (75,341)                                  |
| <b>Total Revenues</b>  | <b>4,060,918</b>           | <b>2,612,726</b>        | <b>1,243,461</b>    | <b>(1,369,265)</b>                        |
| <b>Expenditures</b>  |                            |                         |                     |   |
| <b>Current</b>   |                            |                         |                     |   |
| Transportation   | -                          | -                       | 281,089             | (281,089)                                 |
| <b>Capital Outlay</b>  | <b>6,762,737</b>           | <b>4,459,570</b>        | <b>1,438,488</b>    | <b>3,021,082</b>                          |
| <b>Total Expenditures</b>  | <b>6,762,737</b>           | <b>4,459,570</b>        | <b>1,719,577</b>    | <b>2,739,993</b>                          |
| <b>Excess (Deficiency) of Revenues<br/>Over (Under) Expenditures</b> | <b>(2,701,819)</b>         | <b>(1,846,844)</b>      | <b>(476,116)</b>    | <b>1,370,728</b>                          |
| <b>Other Financing Sources</b>                                       |                            |                         |                     |   |
| Inception of intergovernmental loan                                  | 1,216,787                  | 417,090                 | 11,698              | (405,392)                                 |
| Transfers in   | 210,000                    | 270,000                 | 270,000             | -   |
| <b>Other Financing Sources</b>                                       | <b>1,426,787</b>           | <b>687,090</b>          | <b>281,698</b>      | <b>(405,392)</b>                          |
| <b>Net Change in Fund Balances</b>                                   | <b>\$ (1,275,032)</b>      | <b>\$ (1,159,754)</b>   | <b>(194,418)</b>    | <b>\$ 965,336</b>                         |
| <b>Fund Balances Beginning of Year</b>                               |                            |                         | <b>2,194,724</b>    |   |
| <b>Fund Balances End of Year</b>                                     |                            |                         | <b>\$ 2,000,306</b> |   |

See accompanying notes to the required supplementary information

**City of Mountlake Terrace, WA**  
***Notes to the Required Supplementary Information***  
***For the Year Ended December 31, 2013***

***Note 1 – Budgetary Basis of Accounting***

The City adopts an annual budget on a basis consistent with generally accepted accounting principles (GAAP) for the general fund and the major special revenue fund.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended December 31, 2013**

| 1   | 2   | 3           | 4  | 5                        |                    |                | 6              |
|---|---|-------------|--|--------------------------|--------------------|----------------|----------------|
| Federal Agency Name/Pass-Through Agency Name  | Federal Program Name  | CFDA Number | Other I.D. Number  | Expenditures             |                    |                | Foot-note Ref. |
|   |   |             |  | From Pass-Through Awards | From Direct Awards | Total          |                |
| US Dept of Housing and Urban Development /Passthrough from Sno Co HUD                     | Community Development Block Grants/Entitlement Grants                     | 14.218      | HCD-10-21-1006-236<br>222ND St Sidewalks /44TH-39TH                          | 64,475                   |                    | 64,475         | 2              |
|   |   | 14.218      | Snohomish County HASCO turned over HUD monies to the City to perform Housing | 1,188                    |                    | 1,188          | 4              |
|   |   | 14.218      | HCD-11-21-1106-236<br>54TH Ave Sidewalk GF40/C1202                           | 146,291                  |                    | 146,291        | 2              |
|   |   |             | <b>subtotal of CFDA 14.218</b>   | <b>211,954</b>           |                    |                |                |
| Department of Housing and Urban Development / pass-through from Snohomish County          | Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation | 14.856      | HUD Hasco Grant in lieu of taxes   | 12,934                   |                    | 12,934         | 2              |
| Dept of Justice Bureau of Justice Assistance  | Bulletproof Vest Partnership Program                                      | 16.607      | 2011BUBX11057307   |                          | 3,151              | 3,151          | 2              |
| Federal Highway Administration Dept of Transportation/Pass-through from WA State DOT      | Highway Planning and Construction   | 20.205      | 0815(005) 54TH Sidewalk 220th to 223rd /Agreement LA7636                     | 232,788                  |                    | 232,788        | 2              |
|   |   | 20.205      | STPUL-2519(003) Main Street Reconstruction LA7978                            | 6,556                    |                    | 6,556          | 2              |
|   |   | 20.205      | STPUL-2504(001) 236th St/Cedar Way Chip Seal LA7952                          | 243,700                  |                    | 243,700        | 2              |
|   |   | 20.205      | CM-STPD-0815(004) Agreement LA7617 Lakeview Trail                            | 200,164                  |                    | 200,164        | 2, 3           |
|   |   |             | <b>subtotal of CFDA 20.205</b>   | <b>683,209</b>           |                    |                |                |
| DOT-NHTSA Passthrough to Wa Traffic Safety Commission                                     | State and Community Highway Safety  | 20.600      | Washington Traffic Safety Funds 2013 WASPC Traffic Safety Emergency          | 946                      |                    | 946            | 2              |
| Department of Transportation National Highway Traffic Safety Administration (NHTSA)       | National Priority Safety Programs   | 20.616      | TZT  | 8,134                    |                    | 8,134          | 2              |
| Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program | Environmental Protection Agency / Region 10                               | 66.123      | Agreement Number 12-63401-011  | 1,080                    |                    | 1,080          | 2              |
| Dept of Homeland Security/Wa St. Emergency Mgmt/Wash Military Dept.                       | Disaster Grants - Public Assistance                                       | 97.036      | 4056-DR-WA   | 250                      |                    | 250            | 2              |
| Dept of Homeland Security/Wa St. Emergency Mgmt/Wash Military Dept.                       | Emergency Operations Center   | 97.052      | E12-272  | 19,941                   |                    | 19,941         | 2              |
| <b>Total Federal Awards Expended</b>  |   |             |  | <b>938,447</b>           | <b>3,151</b>       | <b>941,598</b> |                |

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

**CITY OF MOUNTLAKE TERRACE**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2013**

**NOTE 1 - BASIS OF ACCOUNTING**

This schedule is prepared on the same basis of accounting as the city's financial statements. The city uses the modified accrual basis of accounting.

**NOTE 2 - PROGRAM COSTS**

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the city's portion, are more than shown.

**NOTE 3 – INCLUDES ADJUSTMENT**

The amounts shown as current year expenditures reflect a reduction of expenditures that were previously reported in 2012 as expenditures.

**NOTE 4 – HASCO FUNDS TRANSFERRED TO THE CITY**

Snohomish County HASCO remitted \$304,123 in HUD grant funds to the city to perform housing inspections. In 2013 only a small portion of these funds has been expended..

# Corrective Action Plan for Findings Reported Under OMB Circular A-133

## City of Mountlake Terrace Snohomish County January 1, 2013 through December 31, 2013

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the City of Mountlake Terrace. The State Auditor's Office has reviewed the information as presented by the City.

|  |   |
|--|---|
| <b>Finding ref number:</b><br>1  | <b>Finding caption:</b><br>The City's internal controls over accounting and financial statement preparation are inadequate to ensure accurate reporting |
| <b>Name, address, and telephone of auditee contact person:</b><br>Sonja Springer<br>6100 219th Street S.W.<br>Mountlake Terrace, WA 98043<br>(425) 744-6204  |   |
| <p><b>Corrective action the auditee plans to take in response to the finding:</b></p> <p><i>During the 2013 audit, auditors suggested the two agencies' cash and investment be added to the City's Agency Funds statements. The addition of the Agency funds has no effect on the financial condition of the City. Furthermore, the Agency Funds statements have been updated to include these cash and investments. In the future the City will include these two agencies cash and investment balances in its Agency Funds statements per the rule identified by the State Auditor's Office (SAO) in 2014.</i></p> <p><i>The \$2,472,435 overstated amount cited by SAO represents a total of 98 street projects that had been completed and capitalized since 2000. The City's capital asset policy, which was drafted using the Budget Accounting Reporting System (BARS) manual and GASB guidelines, required that improvements with costs over \$5,000 that improved and extended the useful life of an asset be capitalized. This included chip-seal and overlay road projects.</i></p> <p><i>During the 2013 audit, it is was brought to our attention that chip-seal and overlay projects should not be capitalized, regardless of the cost of the improvement even if the useful life of the road was extended. The City has updated its governmental capital assets schedule in its 2013 CAFR to exclude the \$2,472,435 of projects that are now considered road repairs rather than improvements. Note there was no previous GAAP guidance on the issue, and our state independent auditors signed off on our policy with an unqualified opinion.</i></p> <p><i>When the City did not capitalize the 230<sup>th</sup> Street Reconstruction project totaling \$1,599,901 in 2010, the City was following its capitalization policy to classify all costs as construction work in progress until all final payments and claims are processed. There was a major claim outstanding of \$224,000 that was filed by the contractor on this project in 2011. The</i></p> |   |

*unresolved claim delayed the capitalization of the street reconstruction project. This claim was not resolved and settled with the contractor until 2014. The \$106,660 annual depreciation was not taken because according to the City, the outstanding claims had not all been resolved.*

*The City will change in capitalization policy and in the future will capitalize projects when they are substantially complete and put into service even though there may be outstanding claims.*

*This inaccurate methodology used to calculate depreciation on the City's utility assets comes about due to differing views on the useful life of sewer assets, specifically the City's ownership at the Edmonds Wastewater Treatment Plant (WWTP). SAO has identified a useful life for depreciation of this asset as ending in 2018, at the time of the current inter-local agreement between Mountlake Terrace and Edmonds expires. The City, on the other hand, has used a useful life for depreciation based on the estimated useful life of the treatment plant of 18.5 years assuming the agreement will be extended after 2018. (Neither Edmonds nor Mountlake Terrace anticipate the WWTP will be shut off to Mountlake Terrace at the end of 2017; the City owns a portion of the plant, and that ownership does not dissolve if a successor inter-local is not in place.)*

*This explanation aside, the City did increase the net value of its ownership of the Edmonds Wastewater Sewer Plant by \$684,637 per SAO's recommendation and will change its depreciation method to the straight line method for infrastructure assets. In the City's opinion, the net adjustment of \$684,637 to increase the value of the Sewer Utility capital assets is immaterial as compared to the total Utility Capital assets value of \$36.4 million at December 31, 2013.*

*The City has consistently reported all of its restricted unspent bond proceeds from the 2010 and 2012 Revenue bond issues in its Notes to the Financial statements, specifically in Note 3-K (Fund Equity) of the City's 2010, 2011 and 2012 CAFR. The unspent portion of the debt has always been included in the calculation of net position restricted for capital projects. These restricted proceeds will now also be included as restricted Cash and Investments on the City's Statement of Net Position in the 2013 CAFR.*

**Anticipated date to complete the corrective action:** The corrective action was made prior to the completion of the audit.



## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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